

Exhibit No.:
Issues: Annual Incentive Plan Overview, MAWC
AIP Payments, Service Company AIP
Payments, Long-Term Incentive Plan
Witness: Maxine Mitch
Exhibit Type: Rebuttal
Sponsoring Party: Missouri-American Water Company
Case No.: WR-2011-0337
SR-2011-0338
Date: January 19, 2012

MISSOURI PUBLIC SERVICE COMMISSION

**CASE NO. WR-2011-0337
CASE NO. SR-2011-0338**

REBUTTAL TESTIMONY

OF

MAXINE MITCH

ON BEHALF OF

MISSOURI-AMERICAN WATER COMPANY

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

IN THE MATTER OF MISSOURI-AMERICAN) WATER COMPANY FOR AUTHORITY TO) FILE TARIFFS REFLECTING INCREASED) RATES FOR WATER AND SEWER) SERVICE)	CASE NO. WR-2011-0337 CASE NO. SR-2011-0338
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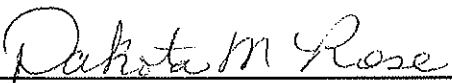
AFFIDAVIT OF MAXINE MITCH

Maxine Mitch, being first duly sworn, deposes and says that she is the witness who sponsors the accompanying testimony entitled "Rebuttal Testimony of Maxine Mitch"; that said testimony and schedules were prepared by her and/or under her direction and supervision; that if inquires were made as to the facts in said testimony and schedules, she would respond as therein set forth; and that the aforesaid testimony and schedules are true and correct to the best of her knowledge.



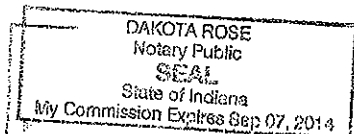
Maxine Mitch

State of Indiana
County of Johnson
SUBSCRIBED and sworn to
Before me this 17th day of January 2012.



Notary Public

My commission expires: September 7, 2014



**REBUTTAL TESTIMONY
MAXINE MITCH
MISSOURI-AMERICAN WATER COMPANY
CASE NO. WR-2011-0337
SR-2011-0338**

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1 **REBUTTAL TESTIMONY**

2
3 **MAXINE MITCH**

4
5 **WITNESS INTRODUCTION AND PURPOSE**

6
7 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

8 A. My name is Maxine Mitch. I am employed by American Water Works Service
9 Company, Inc. ("AWWS"), 727 Craig Road, St. Louis, Missouri 63141.

10
11 **Q. WHAT IS YOUR POSITION WITH MISSOURI-AMERICAN WATER COMPANY
12 ("MISSOURI-AMERICAN" OR "MAWC" OR THE "COMPANY")?**

13 A. I am employed as Vice President – Human Resources for the Central Division of
14 AWWS, which includes Missouri-American.

15
16 **Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND
17 PROFESSIONAL EXPERIENCE.**

18 A. I received a Bachelor of Science in Business Administration degree, with a major
19 in operations, research and statistics. After graduation, I was hired by Broadway
20 Department Stores in their Human Resources Department located in California
21 for eight years. I joined AWWS on June 1, 1979 as Manager of Employment. I
22 worked for various states, regional areas and division in various capacities and
23 became Vice President - Human Resources on January 1, 2004.

1 I have been involved in all aspects of Human Resources, including benefits,
2 compensation, employee and labor relations, employee development and
3 staffing.

4
5 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

6 A. I will explain the purpose and operation of the Missouri American Water
7 Company (“MAWC”) and American Water Works, Inc (“AWW”) annual incentive
8 plan (“AIP”) and Long-Term Incentive Plan (“LTIP”). I will demonstrate that the
9 Staff should not have eliminated AIP recovery because there are a number of
10 customer service, quality, cost containment, environmental and other objectives
11 that result in direct customer benefit and should be encouraged by the
12 Commission. Finally, I will discuss how the Staff has improperly excluded 70% of
13 AIP costs attributable to Service Company employees based upon an erroneous
14 assumption that the goals on which they are based are financially driven.

15
16 **1. ANNUAL INCENTIVE PLAN OVERVIEW**

17
18 **Q. PLEASE EXPLAIN THE PURPOSE OF THE COMPANY’S COMPENSATION
19 STRATEGY.**

20 A. The purpose of the American Water employee compensation strategy is to
21 provide a competitive overall cash compensation and benefits package to eligible
22 exempt employees that will allow it to be in a position to recruit and retain
23 qualified employees.

24
25 **Q. HOW IS THE ANNUAL INCENTIVE PLAN RELATED TO THAT STRATEGY?**

26 A. A key part of that overall strategy is providing an AIP plan as part of the cash
27 compensation for employees. The American Water 2010 AIP is designed to give
28 eligible exempt employees an annual opportunity to earn a cash award that
29 recognizes and rewards their contributions to the Company’s success. The 2010
30 AIP is designed to challenge and motivate eligible employees to perform at their
31 highest level, and promote the creation of value to the customer and shareholder.

1 The plan accomplishes these goals by placing a portion of the employee's total
2 cash compensation at-risk; that is, a certain percentage of the employee's
3 compensation is subject to that employee's performance. The employee is then
4 paid none, a portion or all of the at-risk compensation depending on his/her
5 attainment of a number of objectives.
6

7 **Q. WHAT OBJECTIVES ARE UTILIZED IN THE AIP?**

8 A. The objectives may be related to one or more of six categories of performance
9 objectives. These six categories include people development, customer
10 service/satisfaction, health/safety, financial, process improvement/business
11 transformation and environmental. The employee is motivated to focus on and
12 accomplish these objectives in addition to his/her regular activities as outlined in
13 the employees' position description. An employee can attain higher
14 compensation by improving his/her performance and accomplishing objectives
15 that are above and beyond what he/she would be expected to do as a normal
16 course of business. As a result of this performance focus, the employee, the
17 customer and the Company receive benefits.
18

19 **Q. IS THE AIP JUST A BONUS FOR PERFORMING THE DUTIES SPECIFIED BY
20 THE POSITION DESCRIPTION?**

21 A. No. An employee may perform the duties described in his/her position
22 description at a level just enough to receive a "satisfactory" performance rating.
23 While an individual with such a rating may receive a lower annual increase in
24 salary than others, the difference to the employee from a compensation
25 standpoint is not significant. The employee's supervisor could attempt to motivate
26 this employee by various non-monetary means to do more, but if the employee
27 can receive his/her base pay by doing just enough, there are few other effective
28 alternatives for the supervisor. The AIP, by placing a greater proportion of pay at
29 risk, provides another significant tool to motivate employees. Those inclined to do
30 just enough to be satisfactory may continue to do so, but their compensation will
31 be limited. Those motivated to do more will receive higher compensation. This
32 approach not only improves employee and company performance and customer

1 satisfaction, but it also maintains the competitiveness of the cash compensation
2 available for high performing employees, so they are more likely to be retained
3 by the Company.

4
5 **Q. PLEASE EXPLAIN HOW THE “PERFORMANCE OBJECTIVES” OF THE**
6 **COMPANY’S ANNUAL INCENTIVE PLAN (“AIP”) ARE DETERMINED.**

7 A. At the beginning of each year, the employee and his/her supervisor develop
8 between four to six performance objectives for the employee to accomplish
9 during the year. They may be related to any of the six categories identified
10 previously. These objectives may be related to: 1) cost control or efficiency
11 (financial); 2) employee training and/or development (people development) for
12 the employee or for his/her subordinates; 3) improvements in processes or
13 procedures to increase efficiency/effectiveness or accuracy (process
14 improvement/business transformation); 4) improvements in water quality or
15 service quality for external or internal customers (customer service/satisfaction);
16 5) improvements for employee health or safety purposes (health/safety); and, 6)
17 improvements to processes to reduce pollutant emissions or to effect
18 greenhouse gas reductions from company processes and facilities
19 (environmental). Objectives must contain a demonstrable element that improves
20 the company, the employee or his/her subordinates or customer
21 service/satisfaction.

22
23 **Q. PLEASE EXPLAIN HOW THE POOL FOR AIP PAYOUT IS CALCULATED.**

24 A. All exempt employees of MAWC and the Service Company participate in the AIP.
25 For each pay grade level, an at-risk percentage of payroll is identified. For most
26 employees, an at-risk percentage is established at 5% to 20% of the base
27 payroll, depending on the employee’s salary band. At-risk means that a portion
28 of the employee’s compensation is not guaranteed, but is subject to certain
29 specific company and individual performance metrics, as I described earlier.
30 This is a common compensation technique that is widely accepted as being
31 beneficial in attracting and retaining high performing employees, in providing
32 incentives to employees to achieve a level of performance and in protecting

1 customers by putting at risk a level of compensation that will not be paid unless
2 certain specified objectives are met.

3
4 Each year, an AIP budget is established by computing each participating
5 employee's base compensation times their at-risk percentage, assuming that
6 target will be achieved and paid out at the 100% level. Prior to the beginning of
7 each calendar year, each participant, working with their supervisor and one-up
8 supervisor, develop AIP related objectives that must be achieved in order for
9 them to receive an AIP payment for that calendar year. In addition, the plan
10 design establishes safeguards to insure that payment of AIP will not be
11 detrimental to the financial health of AWW or MAWC. At the time of goal-setting,
12 the Company establishes a minimum level of earnings per share and operating
13 cash flow that must be achieved before any AIP is paid out. If these metrics are
14 achieved, 70% of the budgeted incentive is "unlocked" and available for pay-out,
15 depending on individual employee performance. Minimum metrics for safety,
16 customer satisfaction, environmental compliance and customer service quality
17 each "unlock" an additional 7.5% of budget and make those funds available for
18 possible payout. If all Company metrics are met, 100% of the budgeted AIP is
19 available for pay-out to employees to the extent their individual goals have been
20 achieved.

21
22 **Q. WHAT WERE THE FINANCIAL CONSEQUENCES OF THE AIP IN 2010?**

23 A. Schedule MM-1 HC, which is based upon information provided to Staff in
24 response to data requests, demonstrates how this mechanism was applied in
25 2010. The MAWC allocable portion of budgeted Service Company AIP in the
26 amount of \$1,654,860 was fully unlocked through achievement of the metrics
27 described. Likewise, the budgeted MAWC AIP was unlocked through the same
28 mechanism. However, if the state operating company does not perform well,
29 there may be reductions in the AIP pay-out. The 70% financial performance
30 hurdles and 30% non-financial hurdles merely establish the extent to which the
31 program will be available for possible payout. Ultimately, the payouts depend
32 upon the performance of individual employees in relation to their individual goals.

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Q. WHAT EXCLUSIONS DID STAFF PROPOSE ASSOCIATED WITH THE ANNUAL INCENTIVE PLAN?

A. The Staff is recommending disallowance of a portion of AIP costs for MAWC employees of approximately \$404,268. Staff is also recommending disallowance relative to Service Company employees in the amount of about \$1,162,000.

Q. DO YOU BELIEVE THAT THESE DISALLOWANCES WOULD HAVE BEEN PROPOSED BY STAFF IF THE AIP WAS NOT IN PLACE, AND THOSE PAYMENTS WERE INSTEAD INCLUDED IN BASE COMPENSATION?

A. No. When an employee's compensation is determined, it is based on the competitive market as a whole. The total compensation package, including base pay, benefits and AIP is compared to what is necessary to recruit and retain quality employees. Placing a portion of the total compensation package "at-risk" is a method for MAWC to maintain its competitive recruiting position while creating a way to motivate its employees to excel. Making a portion of compensation "at-risk" by establishing goals that must be met in order to earn an AIP payment is an effective management tool that results in achievement of routine job expectations, but encourages employees to accomplish initiatives that likely would not have otherwise occurred. In other words, establishing "at-risk" pay improves efficiency, development and quality of job performance at no additional total compensation cost to the Company.

Unfortunately, the Staff approach to AIP allowance threatens these accomplishments. It is unlikely that the Staff would propose elimination of reasonable compensation, if it were not differentiated as "at-risk" or incentive compensation. Yet, the Staff's attempt to eliminate payments for goals that it considers unimportant is tantamount to management of individual employee efforts and acts as a disincentive to the Company to encourage special performance.

2. MAWC AIP PAYMENTS

1 **Q. DO THE SIX CATEGORIES OF OBJECTIVES THAT YOU MENTIONED**
2 **ABOVE APPLY TO MAWC EMPLOYEES' GOALS?**

3 A. Yes. The six categories include people development, financial, process
4 improvement/business transformation, health/safety, customer
5 service/satisfaction, and environmental. Individual employees are paid on based
6 on the level of achievement of their specific personal objectives.

7
8 **Q. WHAT IS THE PURPOSE OF THE PEOPLE DEVELOPMENT OBJECTIVES**
9 **INCLUDED AS PART OF EMPLOYEES' PERFORMANCE PLANS?**

10 A. It is widely recognized that the Company's service performance improves as the
11 capabilities of its employees increase. Therefore, employee development
12 objectives are included in order to enhance employees' capabilities and
13 experience. These may take the form of additional classroom training and/or
14 experiential training. The Company provides for a large number of classes
15 available on site, or web based, or externally to provide coursework for the
16 development of employees. Supervisors are also encouraged to include
17 experience based development opportunities to employees by including them on
18 special project teams, which can include team members from a number of
19 functions. Also, cross training opportunities are available to broaden employees'
20 knowledge of company functions and operations. In some cases community
21 service objectives are included in performance plans. These provide the
22 employee an opportunity to broaden their perspective about the communities in
23 which service is provided and work with other volunteers to accomplish a
24 community benefit. This type of experience will give the employee additional
25 skills and abilities to work with other people not in their usual routine.

26
27 **Q. WHAT IS THE PURPOSE OF THE CUSTOMER SERVICE/SATISFACTION**
28 **OBJECTIVE?**

29 A. Customer Service and Satisfaction is extremely important to the Company as it is
30 a significant factor in its success. Personnel that deal with customers directly or
31 with the services provided to the customer may include objectives for improving
32 their customer interaction skills or their functional capability to provide high

1 quality customer service as a performance objective. Employees and functions
2 that do not deal directly with the customer may have other company functions or
3 personnel as their customer. An example would be many of the Human
4 Resource personnel. The employees of the Company are their customers. These
5 functions and employees may have a performance objective to provide a higher
6 level of service to such internal company customers.

7
8 **Q. YOU PREVIOUSLY MENTIONED THAT ENVIRONMENTAL IS ONE OF THE**
9 **SIX TYPES OF PERFORMANCE OBJECTIVES. WHAT IS THE PURPOSE**
10 **THIS OBJECTIVE?**

11 A. The purpose of an environmental performance objective would be to reduce the
12 impact of the Company's operations on the environment. An example of such an
13 objective may be to investigate and implement, if feasible, changing fuel sources
14 for Company transportation equipment, or to investigate and implement, if
15 feasible, installation of solar power or wind power production facilities to reduce
16 the use of electricity generated by the use of fossil fuels. This benefits customers
17 in the form of a cleaner environment.

18
19 **Q. HOW DID THE STAFF GO ABOUT DETERMINING WHAT GOALS IT**
20 **BELIEVED SHOULD BE ELIMINATED?**

21 A. The Staff eliminated carte blanche any items with a financial moniker and
22 eliminated most customer service/satisfaction and environmental goals. The
23 Company does not agree with such an arbitrary decision to exclude these costs.

24
25 **Q. WHAT MESSAGE IS THE STAFF SENDING THROUGH ELIMINATION OF**
26 **THE RECOVERY OF COSTS ASSOCIATED WITH ACHIEVEMENT OF THESE**
27 **GOALS?**

28 A. Staff is indicating that the subject goals relate to activities that the Company
29 should not be encouraging and are activities for which the Company should
30 receive no cost recovery.

31
32 **Q. DOES THE STAFF INDICATE WHY THE COMPANY SHOULD NOT BE**

1 **COMPENSATED FOR THESE COSTS?**

2 A. Yes. Staff indicated that it eliminated the financial goals due to its belief that
3 there were no resulting benefits to MAWC's customers. Typically, when financial
4 goals have been challenged on these grounds, it is because they are tied to
5 achievement of certain after the fact levels of revenue, net income or return
6 achievement. For example, the Staff may not see a direct benefit to the
7 customer of the Company achieving a targeted return on equity or a specific net
8 income. In this case, however, Staff went far beyond this typical application and
9 eliminated any goal that happened to appear in the Company's broad financial
10 categorization, apparently without giving consideration to the specifics of any
11 goal. Staff also indicated that the elimination of the financial goals was
12 supported by a Commission decision in a prior Southwestern Bell Telephone
13 Company case.

14
15 **Q. PLEASE PROVIDE EXAMPLES OF EXCLUDED GOALS FROM THE**
16 **FINANCIAL CATEGORY THAT YOU DO NOT BELIEVE SHOULD HAVE**
17 **BEEN CONSIDERED FOR ELIMINATION.**

18 A. There are numerous examples. Schedule MM-2 HC is a copy of a portion of the
19 Staff workpapers with the items Staff recommended for exclusion highlighted. I
20 have added a column to reflect those objectives related only to achievement of
21 specific levels of net income or return. In total, the objectives related to net
22 income and return amount to only about \$52,000. However, a large number of
23 other "financial" initiatives that relate to cost savings were also excluded by Staff.
24 Specific items such as reducing travel costs, analyzing HR metrics to achieve
25 cost savings, completing the capital budget within a +/-3% tolerance, monitoring
26 water quality expenses and chemical usage to identify cost savings, and
27 controlling expenses at 2010 budget levels, are all examples of objectives that
28 the Staff felt had no benefit to MAWC customers.

29
30 **Q. DO THESE INITIATIVES BENEFIT CUSTOMERS?**

31 A. Yes. Active cost containment benefits customers through either less frequent or
32 lower requests for rate increases. Lower rates obviously are a direct benefit to

1 customers even though these are activities that the Staff apparently believes the
2 Company should not be encouraging and/or for which the Company should not
3 be compensated. Spending and monitoring capital investments related to
4 replacing MAWC's aging infrastructure definitely benefits the customers.

5
6 **Q. CAN YOU POINT TO OTHER "FINANCIAL" GOALS THAT STAFF**
7 **RECOMMENDED BE EXCLUDED?**

8 A. Yes. The Staff eliminated a goal to monitor and work to reduce ferric sulfate
9 usage over historical levels. The Staff eliminated a goal to reduce carbon usage
10 at the South and Meramec plants. The Staff eliminated a goal to track spending
11 of laboratory supplies to ensure that the new preferred vendor sourcing is
12 meeting expectations. The Staff eliminated a goal to monitor atrazine levels to
13 expedite reduction of carbon dosage following source water events. The Staff
14 also eliminated a goal to internally administer opportunities available from the
15 Ameren Energy Efficiency Incentive Program for the St. Louis district by
16 providing estimates for the 2011 lighting replacement project, sending out
17 requests for proposals, reviewing bids and processing energy efficiency
18 incentives.

19
20 **Q. WAS THE AMEREN ENERGY EFFICIENCY INCENTIVE PROGRAM**
21 **APPROVED BY THIS COMMISSION?**

22 A. Yes. It is a program designed to encourage conservation with benefits both to
23 Ameren and its customers through reduced demand and benefits to MAWC and
24 its customer through lower costs.

25
26 **Q. DO THESE OTHER "FINANCIAL" GOALS YOU MENTIONED BENEFIT**
27 **CUSTOMERS?**

28 A. In my opinion they do, but apparently Staff believes they carry no customer
29 benefit and are not initiatives that should be encouraged by the Company, nor for
30 which the Company should receive cost recovery.

31
32 **Q. WHAT IS THE DOLLAR VALUE OF THE REMAINING ITEMS IN THE**

1 **FINANCIAL CATEGORY ON SCHEDULE MM-2 HC THAT ARE RELATED TO**
2 **ACHIEVEMENT OF CERTAIN LEVELS OF NET INCOME OR RETURN?**

3 A. Those items amount to \$52,096.22 or less than 4.8% of the total AIP incentive
4 payout.

5
6 **Q. SHOULD THIS 4.8% BE EXCLUDED FROM RATES?**

7 A. As explained in the testimony of Company witness William Rogers, the financial
8 goals attached to specific levels of net income or return attainment have a
9 customer benefit and are costs which the Company should recover.

10
11 **Q. THE STAFF CITED A SOUTHWESTERN BELL CASE TO SUPPORT ITS**
12 **ELIMINATION OF INCENTIVE PAYMENTS. DO YOU BELIEVE THAT CITE**
13 **TO BE PERTINENT TO THIS CASE?**

14 A. No, I do not. The Commission's decision in that case applied only to exclusion of
15 a parent company's senior management incentive programs. There was no
16 exclusion of any local or state related incentives. In MAWC's current case, the
17 Company did not request recovery of any of its parent company's senior
18 management AIP.

19
20 **Q. HAS STAFF ELIMINATED RECOVERY OF INCENTIVES PAID TO**
21 **EMPLOYEES FOR ACHIEVING TARGETED CUSTOMER SATISFACTION**
22 **AND SERVICE QUALITY RESULTS?**

23 A. Yes. The Staff proposed an adjustment to remove any portion of the award
24 associated with the Customer Satisfaction Survey and Customer Service Quality
25 Survey goals.

26
27 **Q. DID THE STAFF SPECIFICALLY OBJECT TO HAVING INCENTIVES TIED TO**
28 **CUSTOMER SERVICE OR SERVICE QUALITY?**

29 A. No. Employee performance carried out in a manner as to result in high customer
30 satisfaction obviously directly benefits the customer. The Company expects and
31 trusts its employees to achieve a high standard of performance. If those
32 employees know that there is an independent, statistical survey of our customers

1 regarding their performance, for which they can be rewarded, it can provide that
2 extra edge to motivate exceptional customer service. Even conducting a small
3 sampling of customer contacts, motivates quality service because employees do
4 not know what customer contact will be included in the survey.

5
6 **Q. WHY THEN DID STAFF PENALIZE THE COMPANY FOR HAVING THESE**
7 **INCENTIVES IN PLACE?**

8 A. At Page 52 of the Staff Report – Cost of Service, it is Staff’s position that the
9 Company’s sample sizes used in conducting its surveys were too small to be
10 reflective of the entire customer population.

11
12 **Q. HOW DID STAFF COME TO THIS CONCLUSION?**

13 A. The Company supplied information to the Staff in response to a data request
14 asking for the number of customers contacted in each survey. From this raw
15 number data, Staff decided that the sample size was too small.

16
17 **Q. DID THE STAFF ASK FOR ANY SUPPORT FROM THE COMPANY**
18 **DEMONSTRATING THAT THE SAMPLE SIZES WERE STATISTICALLY**
19 **VALID?**

20 A. No, they did not. However, they should have known from prior rate cases that
21 the Company does maintain such information and that past surveys, with similar
22 sample sizes, have been shown to be statistically sound.

23
24 **Q. DO YOU AGREE WITH THE STAFF’S ASSERTION THAT THE TEST YEAR**
25 **SURVEYS CONDUCTED BY THE COMPANY WERE “TOO SMALL”?**

26 A. No. The customer service portion of the AIP is based on two surveys, the
27 Service Quality Survey and the Customer Satisfaction Survey. We require the
28 vendors that conduct these surveys to achieve statistical minimum confidence
29 levels of 95% with a sample tolerance of plus or minus 5 percent. Both surveys
30 conducted during the test year utilized sample sizes that resulted in even
31 narrower sample tolerances than were required at the 95% confidence level. In
32 2010, both the Company’s annual Service Quality Survey and Customer

1 Satisfaction Survey were conducted by RKM Research and Communications Inc.
2 That firm reported that the sampling of 787 customers conducted in the Service
3 Quality Survey resulted in a statistical significance at a 95% confidence level of a
4 sample tolerance of plus or minus 4.86 percent. They also reported a sampling
5 of 384 customers in the Customer Satisfaction Survey resulting in a statistical
6 significance at a 95% confidence level of a sample tolerance of plus or minus
7 3.38 percent.

8 Staff has raised this same issue in the Company's last two rate cases, WR-2008-
9 0311 and WR-2010-0131. In neither of those cases did the Staff provide any
10 indication that it had conducted any scientific analysis of the statistical sample
11 size or method used by the Company to determine customer satisfaction levels.
12 It appears that Staff has taken a similar approach in the current case – simply
13 basing a recommendation on positions taken in prior Staff reports, rather than
14 giving consideration to available evidence.

15
16 **Q. ARE ALL THE GOALS IN THE CUSTOMER SERVICE/SATISFACTION**
17 **CATEGORY THAT WERE EXCLUDED ASSOCIATED WITH THE CUSTOMER**
18 **SATISFACTION AND CUSTOMER SERVICE QUALITY SURVEYS?**

19 A. No, they are not. Many, such as those for engineer, planning engineer,
20 engineering technician and other support positions are based on the perceptions
21 of the individuals and departments to which they are assigned to provide
22 assistance on projects during the year. To assess their respective performance
23 levels, internal surveys are taken and exceptional performance rewarded through
24 AIP payout.

25
26 **Q. HOW DOES PROVIDING EXCEPTIONAL INTERNAL CUSTOMER SERVICE**
27 **BENEFIT THE WATER OR WASTEWATER CUSTOMER OF MAWC?**

28 A. These employees support the timely and cost effective completion of engineering
29 and construction projects. That provides direct benefits to our MAWC customers
30 in the form of efficiently invested capital and thus lower rate increases for the
31 improvements constructed than would otherwise be the case.

1 **Q. DID STAFF GIVE A REASON FOR EXCLUSION OF GOALS FROM THE**
2 **ENVIRONMENTAL CATEGORY?**

3 A. No. Staff did indicate that it eliminated certain individual goals, such as
4 community involvement activities, due to a belief that there was no resulting
5 benefit to MAWC's customers. However, it did not explain its exclusion of
6 numerous goals from the environmental category.

7
8 **Q. CAN YOU PROVIDE EXAMPLES OF INITIATIVES IN THE ENVIRONMENTAL**
9 **CATEGORY WHICH THE STAFF RECOMMENDS BE EXCLUDED?**

10 A. Yes. A few examples include: maintain active source water protection plan
11 status, including planting of trees around property; partner with City of Mexico on
12 Earth Day activities to provide watershed/wellhead protection education;
13 implement and oversee additional recycling efforts and document/report quarterly
14 findings to environmental manager; participate in at least three environmental
15 stewardship projects; continue water quality monitoring for Missouri stream team
16 on Shoal Creek; and, form an environmental partnership with one new
17 organization in Eastern Missouri.

18
19 **Q. DOES EXCLUSION OF THE INITIATIVES LISTED ABOVE MEAN THAT THE**
20 **STAFF BELIEVES THEY HOLD NO CUSTOMER VALUE?**

21 A. It would appear so. However, the Company strongly disagrees. Source water
22 protection programs, watershed education programs, planting trees near our
23 source water supplies, and participating in Earth Day activities, Missouri Stream
24 Team water quality monitoring on our river and stream sources of water supply
25 and participation in other environmental stewardship projects are all activities that
26 benefit the customer. These activities educate MAWC and its customers on what
27 is in our sources of water supply that may need to be removed to ensure safe
28 and healthy water supplies, the current health status of MAWC's sources of
29 water supply and they educate customers on the impacts of their actions that
30 either help keep our sources of water supply clean or pollute them. Educational
31 programs and volunteer activities such as these benefit our customers either
32 through ensuring their own health by minimizing the pollutants that enter the

1 source water supply and/or minimizing the treatment cost to remove such
2 pollutants or other undesirable constituents such as soil from erosion etc.

3
4 **Q. DO YOU AGREE WITH STAFF’S CONCLUSION REGARDING COMMUNITY**
5 **INVOLVEMENT?**

6 A. No. MAWC believes that both our employees and customers in the communities
7 they serve benefit from community involvement and interaction. The individual
8 goals related to participation in community events not only directly benefit
9 customers we serve through participation in local events, they also provide an
10 opportunity to identify problems or issues that we otherwise might not have
11 known exist and to educate customers in regard to programs provided by
12 MAWC.

13
14 **Q. CAN YOU PROVIDE EXAMPLES OF “COMMUNITY INVOLVEMENT”**
15 **ACTIVITIES THAT WERE EXCLUDED?**

16 A. Yes. Among initiatives the Staff excluded, the following stand out: provide
17 community service education on water conservation and other programs for our
18 customers; develop a presentation and fact sheet to help customers use water
19 wisely; meet with resale customers a minimum of three times during the year;
20 prepare/present a training session on water quality issues; host an outside
21 training class on water quality including resale customers; play a major role in the
22 Joplin district source water protection plan and make a minimum of one
23 presentation regarding source water protection; prepare and present a training
24 presentation on plate settlers/ultraviolet system for the water quality department;
25 and participate in tours of water treatment plants with internal or external
26 audiences.

27
28 **Q. DOES THE STAFF EVER REQUEST TOURS OF THE MAWC WATER**
29 **TREATMENT FACILITIES?**

30 A. Yes, they have on a number of occasions.

31
32 **Q. DOES EXCLUSION OF THE “COMMUNITY INVOLVEMENT” INITIATIVES**

1 **YOU LISTED INDICATE THAT THE STAFF BELIEVES THOSE ACTIVITIES**
2 **HAVE NO CUSTOMER BENEFIT?**

3 A. Yes. According to its testimony, that is Staff's belief. Apparently Staff believes
4 that meeting with customers, providing training sessions, developing source
5 water protection plans, and other water conservation and water quality programs
6 have no customer benefit.

7
8 **Q. IS IT IRONIC THAT STAFF BELIEVES THAT MEETING WITH CUSTOMERS**
9 **AS YOU HAVE DESCRIBED ABOVE DOES NOT BENEFIT CUSTOMERS?**

10 A. Yes. It is a common refrain of utility regulatory commissioners across the country
11 at conferences and other public meetings, Missouri included, that utilities need to
12 invest more time and energy communicating with and educating their customers
13 on their utilities – what is required to operate them properly, what is required to
14 deliver utility service, what impacts the cost of delivering utility service, etc. All
15 the goals discussed above that involve community and customer outreach and
16 education are designed to be responsive to this very recommendation by
17 commissioners.

18
19 **3. SERVICE COMPANY AIP PAYMENTS**

20
21 **Q. WHAT IS THE DIFFERENCE BETWEEN SERVICE COMPANY AND MAWC**
22 **EMPLOYEES?**

23 A. While they may perform many of the same type functions, MAWC employees are
24 directly and solely assigned to work on MAWC matters. Service Company
25 employees perform their duties for two or more states and assign their time to the
26 state for which they are currently working. For example, a financial analyst that
27 is assigned only to Missouri would be a MAWC employee, whereas a financial
28 analyst that is providing service to both Iowa and Missouri would be classified as
29 a service company employee.

30
31 **Q. WHAT IS THE DIFFERENCE BETWEEN THE MAWC AND THE SERVICE**
32 **COMPANY AIP PLAN?**

1 A. There is none. The Service Company AIP and the MAWC AIP operate in the
2 same manner as described earlier in my testimony.

3

4 **Q. IN DETERMINING REVENUE REQUIREMENTS IN THIS CASE, DID THE**
5 **STAFF TREAT MAWC AND SERVICE COMPANY AIP PAYMENTS IN THE**
6 **SAME MANNER?**

7 A. No. Staff excluded 70% of all AIP compensation paid to Service Company
8 employees.

9

10 **Q. ON WHAT BASIS WAS THIS EXCLUSION MADE?**

11 A. Using the information provided on Schedule MM-1 HC, Staff erroneously
12 determined that 70% of all Service Company AIP was based on financial goals
13 and therefore excluded about \$1.16 million of the pay-out amount. I believe this
14 error was made because of Staff's interpretation that 70% of the pay-out was
15 made based on financial goals. However, that is not the case. These financial
16 hurdles are the same ones that are in place for MAWC AIP payments and exist
17 simply to protect the Company and its customers. If earnings and operating cash
18 flow are insufficient so that an AIP pay-out would have a detrimental impact on
19 the financial health of the Company, then no AIP payment should be made.
20 Once these minimum earnings levels are achieved, the AIP pay-out is "unlocked"
21 and payments made based upon individual goals. Actual AIP payments to
22 Service Company employees are based upon achievement of individual
23 employee goals, very few of which are financial in nature.

24

25 **Q. DO THE SAME TYPE OF INCENTIVE GOALS EXIST FOR SERVICE**
26 **COMPANY EMPLOYEES AS FOR MAWC EMPLOYEES?**

27 A. Yes. The goal-setting process for both groups of employees is the same.

28

29 **Q. HOW HAS SERVICE COMPANY AIP BEEN TREATED IN PRIOR CASES?**

30 A, In prior cases, Staff has not reviewed the thousands of individual service
31 company goals and made exclusions based upon the goal descriptions as they
32 have done for MAWC objectives. Instead, they have made the assumption that

1 the percentage of AIP excluded for MAWC employees should approximate the
2 percentage exclusion for Service Company employees.

3
4 **Q. DOES THE COMPANY AGREE WITH THE APPROACH THAT HAS BEEN**
5 **TAKEN IN THE PAST?**

6 A. Yes. While the Company does not agree that any of the AIP should be excluded
7 from recovery, it does agree that the work performed and goals developed by
8 Service Company employees are similar in nature to those of MAWC employees.
9 If the Commission determines that a portion of the AIP payment associated with
10 MAWC goals should be disallowed, it would be reasonable to assume that the
11 same approximate percentage of AIP payment to Service Company employees
12 would be associated with similar goals.

13 It is by no means appropriate, however, to ignore the types of incentive goals
14 developed and performed by Service Company employees as the Staff has done
15 and arbitrarily eliminate 70% of all AIP as Staff has proposed.

16
17 **4. LONG-TERM INCENTIVE PLAN**

18
19 **Q. WHAT ADJUSTMENT HAS STAFF MADE TO TEST YEAR ACCRUALS FOR**
20 **THE LONG-TERM INCENTIVE PLAN (LTIP)?**

21 A. Staff made an adjustment to eliminate all of the test year LTIP accruals allocated
22 to Missouri in the amount \$702,000.

23
24 **Q. PLEASE DESCRIBE THE LTIP.**

25 A. The LTIP is a management incentive plan, designed to reward certain executive
26 level employees for Company performance over the long-term. In recent years,
27 LTIPs have become increasingly common and now are considered essential to
28 attract and retain top management talent to the Company that will drive
29 efficiency, reliability and quality service to our customers. Awards are granted in
30 three forms – 40% is in non-qualified stock options, 40% is in performance stock
31 units and 20% is in performance stock units based on internal goals. Option
32 awards are vested 1/3 each year, over a three-year period. The 40% portion

1 related to performance stock units is tied to total shareholder return at the end of
2 three year increments. The internal indicators on which 20% of awards are
3 based are related to earnings per share, operational efficiency and customer
4 growth.

5
6 **Q. ARE THESE AWARDS GENERALLY TIED TO FINANCIAL INCENTIVES?**

7 A. Yes. As indicated previously, MAWC witness William Rogers discusses the
8 benefit of financial oriented factors in his Rebuttal Testimony.

9
10 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

11 A. Yes, it does.

**Missouri American Water Company (MAWC)
Corporate Allocations/Affiliates
2010 American Water Incentive Compensation Allocated to MAWC**

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