

Exhibit No.:
Issues: Incentive Plan Costs
Customer Service Bonus
Witness: Cheryl E. Milton Roberts
Exhibit Type: Rebuttal Testimony
Sponsoring Party: Missouri-American Water Company

Case No.: WR-2003-0500
Date Filed: November 10, 2003

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. WR-2003-0500

**REBUTTAL TESTIMONY
OF
CHERYL E. MILTON ROBERTS**

**ON BEHALF OF
MISSOURI-AMERICAN WATER COMPANY**

JEFFERSON CITY, MISSOURI

BEFORE THE PUBLIC SERVICE COMMISSION

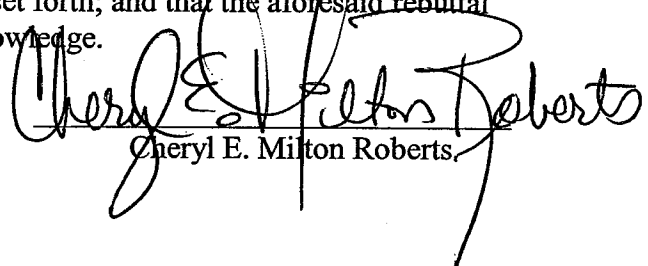
OF THE STATE OF MISSOURI

IN THE MATTER OF MISSOURI-AMERICAN)
WATER COMPANY FOR AUTHORITY TO FILE)
TARIFFS REFLECTING INCREASED RATES)
FOR WATER SERVICE)

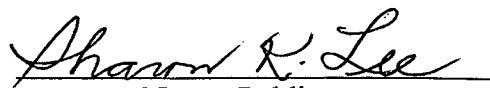
CASE NO. WR-2003-0500

AFFIDAVIT OF CHERYL E. MILTON ROBERTS

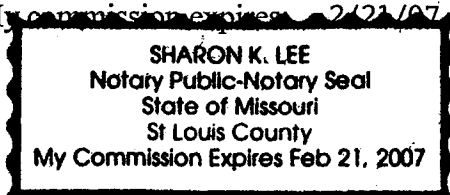
Cheryl E. Milton Roberts, being first duly sworn, deposes and says that she is the witness who sponsors the accompanying rebuttal testimony entitled "Rebuttal Testimony of Cheryl E. Milton Roberts"; that said rebuttal testimony was prepared by her and/or under her direction and supervision; that if inquiries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


Cheryl E. Milton Roberts

State of Missouri
County of St. Louis
SUBSCRIBED and sworn to
before me this 7th day of November 2003.


Notary Public

My commission expires 2/21/07



REBUTTAL TESTIMONY
CHERYL E. MILTON ROBERTS
MISSOURI-AMERICAN WATER COMPANY
CASE NO. WR-2003-0500

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WITNESS INTRODUCTION

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

2

3 A. Cheryl Milton Roberts, 535 North New Ballas Road, St. Louis, MO 63141.

4

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

6

7 A. I am employed by Missouri- American Water Company, a subsidiary of American Water
8 Company. I hold the position of Manager, Employee and Organizational Development.

9

10 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND?**

11

12 A. I graduated from the University of Missouri, Columbia in May of 1981. I received a dual
13 Bachelor of Science degree in Merchandising (Business emphasis) and Journalism. I also was
14 awarded a Master of Arts degree in Human Resource Development from Webster University in
15 1991. I am currently working toward my certification as a Senior Professional in Human
16 Resources (SPHR). I hope to complete my certification in December 2003.

17

18 **Q. PLEASE DESCRIBE YOUR DUTIES AS AN EMPLOYEE OF MISSOURI AMERICAN**
19 **WATER.**

20

21 A. I am responsible for overseeing the organizational development and change processes for the
22 Company including:

23

24 • Coordinating the Performance Management Process, including providing performance
25 coaching;

26 • Designing, developing and implementing training and development initiatives for our
27 employees;

28 • Coordinating the internal communications and employee survey processes;

- Assisting as needed with initiatives designed to engage and motivate our employees.

Q. WHAT KNOWLEDGE, SKILL, EXPERIENCE, TRAINING OR EDUCATION DO YOU HAVE IN THESE MATTERS?

A. In addition to my education, I have relied on my professional work experience and my knowledge of competitive business practice to formulate my opinions and responses.

I have over twenty-two years of work experience. I have held progressively responsible positions in front line management, customer service operations and training and human resources. Within the Human Resource discipline, I have had direct responsibility for: Training & Development, General Human Resources (for exempt and non-exempt employees), Recruiting (for exempt and non-exempt employees), and Organizational Development.

Most of this experience I obtained working for the May Department Stores Company, an industry leader in their field. I have worked for Missouri-American Water Company since November 2001.

PURPOSE AND SCOPE

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. In response to the Direct Testimony of Staff witness Jeremy K. Hagemeyer, I wish to explain the “reasonableness” and “value” of Missouri American Water offering an Annual Incentive program (AIP) to its employees and to suggest that this should be included as a part of our revenue requirement in this Case. My testimony will also introduce the *revised* 2003 Annual Incentive Plan, which was introduced this year. This plan differs significantly from previous plans, specifically in the area of employee accountability and action ability and should in fact address some of the concerns addressed by Mr. Hagemeyer in his testimony.

Q. PLEASE EXPLAIN WHY YOU BELIEVE THE OFFERING OF AN INCENTIVE PLAN

1 **IS OF VALUE AND IS THE REASONABLE THING TO DO.**

2
3 A. A critical factor in any organization's success is the workforce you have the ability to attract,
4 develop and retain. In today's competitive labor market, employees that "have skills" and are
5 "developable" are in demand.

6
7 Our goal is to attract the "best talent" and not to be limited by looking only within the water
8 industry. As such, a company has to be competitive in compensation, benefits, quality of life
9 policies, etc., in order to be able to attract a workforce that will enable the company to achieve its
10 long and short -term goals.

11
12 It is increasingly becoming standard procedure for companies to implement some type of incentive
13 program in order to really drive home the philosophy that they "pay for performance" not just
14 attendance. Our new Annual Incentive program delivers that message. This focus on performance
15 is good for our employees, as well as for the customer since it requires that we set clear objectives
16 and have the talent pool to deliver on them.

17
18 **Q. WHAT ARE THE DETAILS OF THE NEW ANNUAL INCENTIVE PLAN?**

19
20 A. The 2003 American Water Annual Incentive Plan (AIP) recognizes the opportunity and the
21 accountability we share for achieving our goals. Eligible participants in our plan include all full
22 time management, professional and technical employees. The award opportunity is based on the
23 employee's role. The plan has three performance components: financial, operational (includes
24 customer service), and individual.

25
26 The Financial component includes two measures – Operating Result and Net Debt. Goals are set
27 at the organizational level in which you work ("home") and at the next higher organization level
28 ("one level up"), based on business plan.

29
30 The Operational component includes performance measures tied to the American Water critical
31 performance areas like customer service, environmental, etc. as appropriate to the employee's role.

The Individual component includes measures and goals that supplement performance objectives that were set by the employee and their supervisor.

These performance components are weighted depending on the employee's role. The employee earns part of the award for each component independent of the others This means the employee can receive an award based on all, some or none of the applicable components, depending on actual performance results.

The portion of the award opportunity an employee can earn for each component is reflected in the weighting assign to each, based on the level in the organization, as the following chart shows.

<u>If Your Position Is...</u>	<u>Financial Component Weighting</u>	<u>Operational Component Weighting</u>	<u>Individual Component Weighting</u>
Sr. Exec.	70%	15%	15%
Middle Mgr.	60%	25%	15%
Other Mgr.	50%	30%	20%

The "measures" within each component are also weighted. For example, within the Operational Component, the employee may have measures of 50% Customer Service, 25% Environmental, and 25% Health and Safety.

Q. THIS SEEMS VERY DETAILED. HOW REALISTIC IS THIS APPROACH?

A. The premise is that it is essential that participants be accountable for, measured on and rewarded for performance that they can directly impact or influence. That is why the performance measures for the financial component are divided between the "local" organization and the "next level up" (where the unit reports or connects to the larger organization.)

The operational and individual measures and goals reflect the individual employees role. This will

1 ensure:

- 2
- 3 • That the employee is focusing on goal that s/he can impact, and
- 4 • The likelihood of there being a payout is greater, since employees can directly see how
- 5 they can contribute to the success.
- 6

7 **Q. HOW IS THE PAYOUT DETERMINED?**

8

9 A. At the end of the year, the amount for each component is based on performance against each goal

10 within the component and its relative weighting.

11

12 **For example:**

13 Financial Performance	X	Weighting Factor =	Total
14 Operational Performance	X	Weighting Factor =	Incentive
15 Individual Performance	X	Weighting Factor =	Award \$\$

16

17

18 **Q. ARE THERE SPECIFIC AND DETAILED GOALS FOR IMPROVING EXISTING**

19 **PERFORMANCE IN REGARD TO CUSTOMER SERVICE?**

20

21 A. Yes.

22

23 **Q. WHAT ARE SOME EXAMPLES OF THOSE GOALS?**

24

25 A. One of the primary goals that we set in this area is to maintain our Director Level award for the

26 Partnership for Safe Water. This designation signifies a superior operating standard for our

27 operation. The standards for this award were developed by the Environmental Protection Agency

28 in conjunction with the American Water Works Association (not affiliated with American Water

29 Company) and require us to maintain specific data regarding our performance. The requirements

30 are reviewed and the standards are changed and raised as needed by these two organizations.

31

32 As a company, we are very proud of this designation, due to the fact that **less than 3% of all**

1 **water systems in the U.S. have achieved and maintained this award.** Our performance in this
2 area has a direct correlation to our customer's perception of the quality of our product, the level of
3 service that we offer and the commitment that we have to the customers and the communities that
4 we serve.

5
6 Another key goal is:

7
8 Be ranked #1 in Customer Satisfaction while achieving World Class levels as a statewide
9 operation.

10
11 This goal is a part of Missouri- American Water's 2003 Business Objectives, and was
12 communicated in person to all employees by our officers. It is also posted in each of our locations.

13
14 **Q. DOES THE NEW *REVISED* ANNUAL INCENTIVE PROGRAM THAT YOU JUST**
15 **DESCRIBED TAKE THE PLACE OF THE ANNUAL INCENTIVE PROGRAM**
16 **DESCRIBED BY MR. HAGEMEYER IN HIS TESTIMONY?**

17
18 A. Yes, it does.

19
20 **Q. WHAT IS THE CUSTOMER SERVICE AWARD OR "BONUS"?**

21
22 A. The customer service bonus is awarded when the organization achieves "world class service"
23 levels as defined by our customer satisfaction survey. The survey is a tool that randomly and
24 confidentially measures the satisfaction level of our customers with the service that we provide.

25
26 The survey is sent out quarterly and contains questions regarding various areas of customer
27 service. The survey is location specific (St. Louis, Joplin, etc.)

28
29 All employees that work at a location achieving the goal are eligible to receive this bonus.

1 **Q. WHAT AMOUNTS DOES MAWC BELIEVE SHOULD BE INCLUDED IN ITS**
2 **REVENUE REQUIREMENT FOR THE ANNUAL INCENTIVE PLAN AND THE**
3 **CUSTOMER SERVICE AWARDS?**

4
5 A. \$501,482 for the Annual Incentive Plan and \$368,107 for the customer service awards. These
6 amounts represent the proforma level that the Company has proposed in its original filing. The
7 Customer Service awards of \$368,107 represent actual test year expense.

8
9 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

10
11 A. Yes, it does.