

Exhibit No.:  
Issues: Ameren's Incentive  
Compensation Plan  
Witness: Mark C. Lindgren  
Sponsoring Party: Union Electric Company  
Type of Exhibit: Rebuttal Testimony  
Case No.: EC-2002-1  
Date Testimony Prepared: May 10, 2002

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. EC-2002-1

REBUTTAL TESTIMONY

OF

MARK C. LINDGREN

ON

BEHALF OF

UNION ELECTRIC COMPANY

d/b/a AmerenUE

St. Louis, Missouri  
May, 2002

Exhibit No. 150  
Date 7/10/02 Case No. EC-2002-1  
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1           **Q.     Please describe your qualifications.**

2           A.     I have worked in the area of compensation for the past eight years. During  
3     that time I have worked with various types of pay systems in both design and  
4     administrative capacities in two different industries. I have studied the field through  
5     formal study, seminars, and publications, and worked with several expert consultants and  
6     practitioners in the field. In addition, I currently serve on the Edison Electric Institute's  
7     Compensation and Benefits Steering Committee.

8           **Q.     Please describe your duties and responsibilities as Manager,**  
9     **Compensation.**

10          A.     My duties and responsibilities include the management of all aspects of  
11     the corporate compensation and payroll departments. My primary responsibilities for the  
12     compensation department include the design, implementation and administration of all  
13     areas of compensation which includes: base pay; incentives; budget setting/allocation;  
14     compliance; job evaluation/design; communications; consulting with company leaders;  
15     development of related company policies; administration of the annual performance  
16     appraisal program; and various other human resource related programs/projects. My  
17     primary responsibilities for the payroll department include the direction of personnel and  
18     systems to assure accurate and timely processing of payroll for all employees.

19          **Q.     What is the purpose of your testimony?**

20          A.     The purpose of my rebuttal testimony is to address why it is improper to  
21     deny recovery of costs associated with the Company's Incentive Compensation Program.  
22     Staff witness Doyle Gibbs proposes to adjust the Company's cost of service by denying  
23     recovery of \$6,372,742 in costs associated with this integral part of the Company's

1 overall compensation plan. I understand Mr. Gibbs will be modifying this number to  
2 \$5,782,110 in his surrebuttal testimony. Specifically, I will provide testimony showing  
3 that: (1) the program contains clearly ascertainable goals to improve performance, to the  
4 direct benefit of our Missouri electric customers; (2) the program uses "stretch goals" that  
5 reward employees for performance at levels beyond their ordinary duties; (3) the program  
6 supports clearly visible achievements, such as setting the world record for continuous  
7 power plant operations; and (4) the Company's Incentive Compensation program is  
8 needed to provide our employees with average compensation levels that meet industry  
9 average levels. I will also explain the connection between the plan and the Company's  
10 "earnings per share" goals.

11 In addition, as part of my testimony, I have prepared an **Executive**  
12 **Summary** attached hereto as Appendix A.

13 **Q. What is the purpose of the Ameren incentive compensation plans?**

14 **A.** The purpose of the Ameren incentive compensation plans are to ensure  
15 and enhance the ability of the Company to attract and retain employees, motivate  
16 employees to reach specific performance goals, provide an understanding for employees  
17 as to how their job affects Ameren's overall performance, encourage the development of  
18 knowledgeable and experienced talent capable of successfully operating and managing  
19 the business, and create a variable portion of the employees total pay that is paid only if  
20 company and function goals are achieved. In short, the plans represents a prudent  
21 investment in human capital.

1           **Q.     Mr. Gibbs addresses the incentive compensation plans for the year**  
2           **2000, which were paid out in 2001. Have there been any modifications to the plans**  
3           **since then?**

4           A.     Yes, we have made modifications to our incentive compensation plans  
5           each year since 1998. While the payment for the 2000 plans were made in March 2001,  
6           our employees were operating under slightly different plans during 2001. Those  
7           payments were made in early 2002. The portion of the total cost of wages attributed to  
8           the incentive compensation plans for years 2000 and 2001 did vary somewhat. The total  
9           incentive payments for year 2001 were approximately 15% less than in year 2000.

10          **Q.     Why do you modify the plans each year?**

11          A.     The philosophy behind Ameren's pay system is paying for performance.  
12          We believe the performance of the organization is determined by the collective  
13          performance of all employees. We continually strive to improve the plans; to better align  
14          performance and pay.

15          **Q.     What have you done to improve the plans?**

16          A.     In 1998, we began to implement a new performance management process  
17          called the performance scorecard. The process gave management an enhanced ability to  
18          align various functions within the organization to the overall Company strategy. The  
19          process includes planning, executing, measuring and rewarding for objectives that are  
20          balanced between employee, process, customer service and financial measures. The  
21          implementation of this process gave us the ability to modify the incentive plans. The  
22          modifications were based on what we call the "line of sight," which is the ability of an  
23          employee to see the direct link from their performance to their function and then to

1 overall Company performance. Depending on the job in the organization, we have  
2 modified that portion of an employee's incentive that is linked to individual, business  
3 line, or Company performance.

4 **Q. How does Ameren measure each employee's individual performance?**

5 A. Ameren measures each individual's performance as part of a formal  
6 performance appraisal process that includes objective setting, coaching and feedback,  
7 performance measurement and rewards (e.g., incentive pay). This is an annual process  
8 that is required for all management employees. The instrument used to measure each  
9 employee's performance is the performance appraisal form. This form has two primary  
10 sections. The first section measures performance against corporate performance  
11 dimensions. These measures are consistent for all employees and include  
12 communication, customer focus, decision making, flexibility, initiative, teamwork and  
13 leadership. The second section measures the performance of predefined objectives that  
14 are established and agreed to by each employee and their supervisor. The objectives are  
15 typically an employee's three to five most important responsibilities that support the  
16 overall function objectives.

17 **Q. Please describe the plans for 2000 and how they have been modified**  
18 **for 2001.**

19 A. We currently have three separate plans, each tailored to a different  
20 employee group, and specifically tailored to that group's general responsibilities within  
21 the Company.

22 1. The first is the Ameren Incentive Plan (AIP): All regular full or part time  
23 bargaining unit employees at AmerenUE, Ameren Services, and AmerenCIPS may

1 participate in this plan. The 2000 plan for the group was tied directly to the Company's  
2 Earnings Per Share (EPS) with the amount of the incentive payment varying with the  
3 level of EPS.

4 For 2001, this plan was modified, so that once funded, 75% of the  
5 employee's award opportunity was based on the performance of that employee's function  
6 (depending on each employee's respective function's performance indicators). The  
7 remaining 25% was based on Company performance (based on achieved level of EPS).

8 This new plan, under which the employees were working during all of  
9 2001, is designed to encourage the employees in this group to focus on specific, clearly  
10 ascertainable goals to improve the performance of their function. Some of these specific  
11 goals are listed below in my discussion of the "performance indicators" for the Energy  
12 Delivery and Generation functions.

13 2. The Ameren Management Incentive Plan (AMIP) applies to all non-  
14 executive management employees at AmerenUE, Ameren Services, and AmerenCIPS.  
15 The 2000 plan had two performance measures - Business Line performance and  
16 Individual performance. Examples of the specific goals for the function are also listed  
17 below in my discussion of the "performance indicators" for the Energy Delivery and  
18 Generation functions. To the extent that each function's goals were met, the management  
19 employees, who were responsible for managing the departments in those functions, were  
20 awarded accordingly. To the extent that the functional goals were met, fifty percent of the  
21 award opportunity was then available, at a level depending on the Company's EPS  
22 performance measures (minimum, target, and maximum). The remaining 50%

1 opportunity was based on the employee's individual performance as assessed by the  
2 employee's supervisor. To the extent that the goals were not met, they were not awarded.

3           For the **2001** AMIP, the plan was modified somewhat. Again, each  
4 management employee had the opportunity to earn a percentage of their base salary as  
5 incentive compensation. If the Company achieved a pre-defined level of earnings-per-  
6 share (EPS) performance, the AIP was funded. Once funded, 25 percent of the award  
7 opportunity was determined based on each individual's performance as assessed by the  
8 employee's supervisor; 50 percent was determined based on function performance  
9 (depending on each employee's respective functional performance indicators); and 25  
10 percent was determined based on company performance (based on the achieved level of  
11 EPS).

12           3.       The Ameren Executive Incentive Plan (EIP) applies to members of the  
13 Ameren Leadership Team. In 2000, the plan was funded when the Company achieved  
14 pre-defined levels of earnings-per-share (EPS). Once funded, the award opportunity was  
15 based on the executive's individual performance as determined by their superior and  
16 reflecting their department and/or function's performance.

17           For 2001, the plan was modified as well. If the Company achieved a pre-  
18 defined level of earnings-per-share (EPS) performance, the EIP was funded. Once  
19 funded, 50 percent of the award opportunity was based on the executive's individual  
20 performance (as determined by their superior and reflecting their department and/or  
21 function's performance). The remaining 50 percent was awarded based on company  
22 performance (based on the achieved level of EPS).

1           **Q.     Have the plans been modified for 2002?**

2           A.     Yes, the changes to the AMIP include a provision that makes the entire  
3     bonus payment contingent on the employee's individual and business line/ function  
4     performance. The change to the EIP is to tie a portion of the manager bonus payments  
5     directly to the business line/function scorecard.

6           **Q.     How does Earnings Per Share (EPS) affect the incentive plans?**

7           A.     For each plan, the EPS is used as an indicator that the Company, as a  
8     whole, has achieved a certain level of performance that will allow a portion of the  
9     compensation package to become available to employees if the more specific function,  
10    department, and individual performance goals have also been met. The Company can  
11    only justify incentive payouts to individuals if the Company's overall financial health  
12    warrants doing so.

13          **Q.     Mr. Gibbs objects to the fact that the Company's EPS may be**  
14    **adjusted before determining if, and to what extent, the incentive compensation plan**  
15    **will be funded for a particular year. Can you address this issue?**

16          A.     The Company's Chief Financial Officer, Mr. Baxter, addresses this issue  
17    in some detail. I would note, however, that for the 2001 plan, which was paid in early  
18    2002, the Company's EPS was adjusted downward, which had the effect of reducing the  
19    amount paid out to employees under that plan's provisions as compared to the amount  
20    that could have been paid if no adjustment had been made. This belies Mr. Gibbs'  
21    suggestion that the adjustment to EPS levels is only done to increase the payments.

22          **Q.     Mr. Gibbs also objects because the EPS calculation is not adjusted for**  
23    **weather. Would such an adjustment be appropriate for incentive compensation?**

1           A.     No. First, my understanding is that other "test year" data may be weather-  
2     normalized, because the specific data which is weather-sensitive should be normalized to  
3     be sure rates are based on a more "normal" level. For instance, if revenues were  
4     significantly higher or lower than "normal" during the test year, one would want to  
5     "normalize" those figures so that the new rates would be set at a more appropriate level.

6                     In addition, weather that has a favorable effect on EPS will not have that  
7     affect if the Company's employees and equipment do not meet the challenges such  
8     weather brings. If the Company's generation equipment and transmission and  
9     distribution facilities fail during a hot summer, the favorable effect on EPS will be  
10    lessened. Therefore, there is actually some relationship between higher EPS resulting  
11    from weather and employees' efforts.

12           **Q.     What role do the incentive compensation plans play in the overall**  
13    **compensation package offered to Ameren employees?**

14           A.     Ameren views incentive compensation as part of an employee's total  
15    market competitive pay level. Our compensation plan is designed so that the base salary,  
16    plus the "target" incentive compensation brings Ameren employees near the median of  
17    compensation levels for comparable utility positions. Therefore, a portion of all  
18    employees' compensation is contingent on performance. As discussed in greater detail in  
19    the testimony of Mr. Cross, from Mercer Human Resource Consulting, "the targeted  
20    incentive is part of the total compensation package and is necessary to make it  
21    competitive. But it is contingent on performance so it is not guaranteed."

22           **Q.     Do Ameren's incentive compensation plans meet the standards set by**  
23    **the Missouri Public Service Commission for inclusion in rates?**

1           A.     Yes, they do. As I stated earlier, paying for performance is a philosophy  
2 of Ameren's pay system. We believe the performance of the organization is determined  
3 by the collective performance of all employees. The purpose of all jobs that receive  
4 incentives in Missouri are focused directly on the operation of the business which  
5 includes the production of power, the transmission and distribution of power, or the  
6 service needs of customers. These jobs include power plant workers, lineman, customer  
7 service workers, engineers and support staff. The way these employees obtain incentive  
8 pay is directly through their individual and collective performance.

9           **Q.     Mr. Gibbs testified that the staff believes that it is difficult, if not**  
10 **impossible, to ascertain what the impact of any individual's performance was in**  
11 **relation to the level of EPS for any given year. Do you agree with this belief?**

12          A.     No. Trying to tie any individual's performance to the collective  
13 performance of EPS would be very difficult but that is not the intention of using earnings  
14 per share in our incentive plan. The incentive plans are structured to serve the best  
15 interests of both ratepayers and shareholders. As such, EPS is used to indicate the  
16 collective performance of Ameren compared to shareholder expectations and then fund  
17 the incentive plan in relation to this performance. Only a portion of the incentive is paid  
18 for the achieved level of EPS performance. The most significant influence on the  
19 payment of incentives is the employee's individual and functional performance, which  
20 directly focuses on the interests of Missouri ratepayers. To say it another way, the EPS  
21 performance level determines how much money will be available for incentives, but each  
22 employee's individual and functional performance are the key drivers of what is actually  
23 paid.

1           **Q.     Please give some examples as to how this benefits Missouri ratepayers.**

2           **A.     The three largest employee groups in UE are in the Energy Delivery,**  
3           **Generation (Non-Nuclear), and Generation (Nuclear) functions. Following is a**  
4           **description of the actual performance indicators used for 2000 and 2001 and their**  
5           **respective performance levels.**

6                   1.     **Energy Delivery.** This function makes up 44% of the employees  
7           in Union Electric. The primary activities of this function are to provide reliable, safe and  
8           quality electric distribution to UE customers. **For 2000**, the performance indicators were:  
9           delivery service cost per customer; % of bills mailed on time; customer satisfaction; % of  
10          customers experiencing four or more extended outages per year; and an employee safety  
11          index. Because these were stretch goals to improve existing performance, 65% of the  
12          target performance level was actually achieved and therefore 65% of the available bonus  
13          was paid. **For 2001**, the performance indicators were: % of bills mailed on time;  
14          customer satisfaction; net income of regulated business; % of customers experiencing  
15          three or less extended outages per year; and an employee safety index. The performance  
16          level actually achieved was 80% and therefore 80% of the available bonus was paid.

17                   2.     **Generation – Non-Nuclear.** This function makes up 30% of the  
18          employees in Union Electric. The primary activity of this function is to safely and  
19          efficiently operate the power plants that produce electricity. **For 2000**, the performance  
20          indicators were: equivalent forced outage rate; OSHA incident rate; and the production  
21          cost per megawatt hour. Because these were stretch goals to improve existing  
22          performance, 78% of the target performance level was actually achieved and therefore  
23          78% of the available bonus was paid. **For 2001**, the performance indicators were: O&M

1 budget compliance; Nox emission rate; production cost; capital budget compliance;  
2 NPDES (water quality) exceedances; OSHA recordable cases; and annual EAF  
3 (Equivalent Availability Factor) and summer EAF. The performance level actually  
4 achieved was 63% and therefore 63% of the available bonus was paid.

5 3. **Generation – Nuclear**. This function makes up 20% of the employees in  
6 Union Electric. The primary activity of this function is to safely and efficiently operate  
7 the nuclear power plant in Callaway, Missouri to produce electricity. **For 2000**, the  
8 performance indicators were: OSHA recordable injuries; INPO noteworthy events  
9 (nuclear safety); commercial availability; and production costs. Because Callaway's  
10 performance was one of the highest in the entire industry, 93.75% of the target  
11 performance level was actually achieved and therefore 93.75% of the available bonus  
12 was paid. **For 2001**, the performance indicators were OSHA recordable injuries; INPO  
13 noteworthy events (nuclear safety); production costs; radiation exposure – non-outage;  
14 radiation exposure – outage; and plant equivalent availability. The performance level  
15 actually achieved was 45% and therefore 45% of the available bonus was paid.

16 **Q. Earlier in your testimony you mentioned that the Company set the**  
17 **world record for continuous power plant operations. Please explain that comment.**

18 A. In 2001/2002, the AmerenUE Sioux Power Plant achieved a world record  
19 of 246 continuous days of operation of a cyclone-fired boiler unit. This level of success  
20 takes great planning and execution, with everyone working together. The incentive plan  
21 will reward this successful collaborative effort and we believe contributed to this success.  
22 This is just one of many success stories of work groups achieving new levels of  
23 performance.

1           **Q.     You also mentioned earlier that the Company's Incentive**  
2   **Compensation Plans are needed to provide employees with average compensation**  
3   **levels that meet industry average levels. Would you please explain?**

4           A.     Yes. As discussed in detail by Mr. Cross from Mercer Human Resource  
5   Consulting, the portion of the Company's overall compensation package that is tied to  
6   incentives is a necessary part of the total package necessary to make it competitive. He  
7   indicated that if we did not have the incentive package our ability to compete for  
8   qualified employees would be harmed. The fact that we have made part of that overall  
9   package payable only if certain goals are met should be welcomed by the Commission,  
10   not penalized.

11           **Q.     Does this conclude your testimony?**

12           A.     In conclusion, I would like to encourage the Commission to reject the  
13   Staff's adjustment for this issue. We believe Ameren's Incentive Compensation Program  
14   clearly meets the Commission's criteria and directly benefits Missouri ratepayers.

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI**

The Staff of the Missouri Public Service Commission,	)	
	)	
Complainant,	)	
	)	
vs.	)	Case No. EC-2002-1
	)	
Union Electric Company, d/b/a	)	
AmerenUE,	)	
Respondent.	)	

**AFFIDAVIT OF MARK C. LINDGREN**

STATE OF MISSOURI     )  
                                      ) ss  
CITY OF ST. LOUIS     )

Mark C. Lindgren, being first duly sworn on his oath, states:

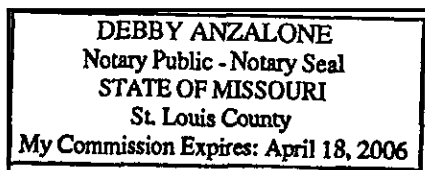
1. My name is Mark C. Lindgren. I am employed by Ameren Services Company as Manager, Compensation.
2. Attached hereto and made a part hereof for all purposes is my Rebuttal Testimony on behalf of Union Electric Company, d/b/a AmerenUE, consisting of 13 pages and Appendix A, all of which have been prepared in written form for introduction into evidence in the above-referenced docket.
3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct.

  
\_\_\_\_\_  
Mark C. Lindgren

Subscribed and sworn to before me this 3<sup>rd</sup> day of May, 2002.

  
\_\_\_\_\_  
Notary Public

My commission expires:



## EXECUTIVE SUMMARY

### Mark C. Lindgren

*Manager – Compensation, Ameren Services responsible for corporate compensation and payroll departments including the design, implementation and administration of all areas of compensation*

\* \* \* \* \*

Ameren's Incentive Compensation Program meets the standards set by this Commission for inclusion in rates. Our program contains clearly ascertainable goals to improve performance, to the direct benefit of our Missouri electric customers. It uses "stretch goals" that reward employees for performance at levels beyond their ordinary duties. The program supports clearly visible achievements, such as setting the world record for continuous power plant operations. The Incentive Compensation program is an integral part of our total compensation package. It is designed so that base salary plus the "target" incentive compensation brings our employees near the median of compensation levels in the utility industry. But part of that compensation is contingent on the performance of the company, the function and the individual employee.

There are three separate plans, each tailored to a different employee group, and designed specifically to be appropriate to that group's general responsibilities with the Company. There is a program for employees represented by bargaining units, a program for non-executive management employees, and one for executives. The incentive compensation from the 2000 plans was paid in March 2001. During all of 2001, however, slightly different plans were in effect. The incentive compensation for those plans was paid in March 2002. The amount paid out for the 2001 plan was approximately 15% less than for the 2000 plans.

An example of payouts under the plan shows that for 2000, the Energy Delivery function (44% of Union Electric employees) achieved 65% of the target performance level and therefore 65% of the available bonus was paid. The performance indicators for the function were: delivery service cost per customer; % of bills mailed on time; customer satisfaction; % of customers experiencing four or more extended outages per year, and an employee safety index.

The plans benefit Ameren UE's Missouri customer directly. The Staff's proposed adjustment to remove \$6,376,742 from the Company's cost of service for the Incentive Compensation Program is based on the wholly unsupported notion that the Program does not meet Commission standards, and so this adjustment penalizes the Company for doing the very thing that the Commission should be encouraging – improving the performance of Ameren's employees to the benefit of its Missouri customers. This proposed adjustment should be rejected.