

Exhibit No.: _____
Issue: Incentive Pay
Witness: Myron W. McKinney
Type of Exhibit: Surrebuttal Testimony
Sponsoring Party: The Empire District Electric Company
Case No.: ER-2001-299
Date Prepared: May 16, 2001

SURREBUTTAL TESTIMONY
OF
MYRON W. MCKINNEY
THE EMPIRE DISTRICT ELECTRIC COMPANY
BEFORE THE
MISSOURI PUBLIC SERVICE COMMISSION
CASE NO. ER-2001-299

FILED³
MAY 17 2001
Missouri Public
Service Commission

1 Q. PLEASE STATE YOUR NAME.

2 A. Myron W. McKinney.

3 Q. ARE YOU THE SAME MYRON W. MCKINNEY WHO FILED DIRECT AND
4 REBUTTAL TESTIMONY IN THIS CASE?

5 A. Yes, I am.

6 Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

7 A. The purpose of my surrebuttal testimony is to reply to the rebuttal testimony of Janis E.
8 Fischer regarding Incentive Pay or Compensation and when those amounts should be
9 recovered from ratepayers. At issue is approximately \$323,000.

10 Q. WHAT DO YOU MEAN BY INCENTIVE PAY OR INCENTIVE COMPENSATION?

11 A. At Empire, each non-officer, non-bargaining unit employee, in conjunction with their
12 supervisor, at or near the beginning of the year establishes individual goals. These goals
13 are divided into base goals and stretch goals. The base goals must be achieved before an
14 employee becomes eligible for any incentive compensation. If both base goals and

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1 stretch goals are accomplished, the employee becomes eligible for incentive
2 compensation. The incentive compensation is paid from an accrual which is accumulated
3 through the calendar year. Typically, the awards are made in late February. Incentive
4 awards are one-time payments and do not increase the employee's base wage even though
5 the accrual, usually 2-2.5%, is made every month based on the assumption that some
6 employees will obtain their stretch goals.

7 Q. WOULD YOU PLEASE DESCRIBE A STRETCH GOAL?

8 A. Stretch goals are usually goals which require the employee to go beyond normal
9 improvement of job duty. In other words, the stretch goals expect that the employee will
10 extend the scope of their activity, learn a new skill, or provide instruction to other
11 employees to achieve learning. An employee cannot achieve stretch goals by simply
12 performing the existing job duties.

13 Q. ARE THE RATEPAYERS BENEFITED BY THIS PROCESS?

14 A. Yes, in at least three ways. First, if the employees are expanding their skill sets by
15 achieving stretch goals, the organization is able to fill vacant positions from within the
16 existing employee base. This obviously reduces the need for training, allows vacancies to
17 be filled more quickly and eliminates the need of recruiting fees, sign-on bonuses and
18 other measures which have become commonplace in the recruitment of employees.
19 Second, since all positions at Empire are related either directly or indirectly to the
20 provision of service to customers, having employees who are well trained who must
21 achieve goals which go beyond their normal duties to obtain a portion of their
22 compensation is an enhancement to the level of service our customers should expect.

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1 Third, the fact that incentive payments do not increase base salaries should be recognized
2 as an effective way to maintain realistic base salaries and to thus hold down costs.

3 Q. WHAT IS YOUR CONCLUSION REGARDING THE \$323,000 INCENTIVE
4 PAYMENT MS. FISCHER REFERENCES AT PAGE 9 OF HER REBUTTAL
5 TESTIMONY?

6 A. The payment was made by Empire to employees who had achieved goals that were
7 beyond their normal duties and the ratepayers do, in fact, benefit from those efforts.
8 Consequently, this expenditure should be included in rates. Thus, the Commission's
9 traditional test for rate recovery of incentive compensation is satisfied.

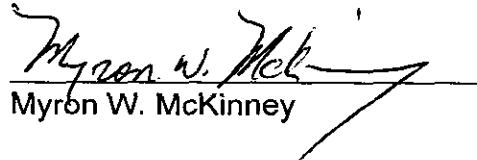
10 Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

11 A. Yes, it does.


AFFIDAVIT

STATE OF MISSOURI)
) ss
COUNTY OF JASPER)

On the 16th day of May, 2001, before me appeared Myron W. McKinney, to me personally known, who, being by me first duly sworn, states that he is the President and Chief Executive Officer of The Empire District Electric Company and acknowledged that he has read the above and foregoing document and believes that the statements therein are true and correct to the best of his information, knowledge and belief.


Myron W. McKinney

Subscribed and sworn to before me this 16th day of May, 2001.


Patricia A. Settle, Notary Public

My Commission expires: August 16, 2002.

