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**MISSOURI PUBLIC SERVICE COMMISSION**

**Case No. ER-2008-0318**

**REBUTTAL TESTIMONY**

**OF**

**KRISTA G. BAUER**

**ON**

**BEHALF OF**

**UNION ELECTRIC COMPANY  
d/b/a AmerenUE**

**St. Louis, Missouri  
October, 2008**

*Complained*  
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1 REBUTTAL TESTIMONY

2 OF

3 KRISTA G. BAUER

4 CASE NO. ER-2008-0318

5 I. INTRODUCTION

6 Q. Please state your name and business address.

7 A. My name is Krista G. Bauer. My business address is One Ameren Plaza,  
8 1901 Chouteau Avenue, St. Louis, Missouri 63103.

9 Q. By whom and in what capacity are you employed?

10 A. I am employed by Ameren Services Company ("Ameren Services") as  
11 Manager, Compensation & Performance.

12 Q. Please describe your employment history with Ameren Services  
13 Company.

14 A. I joined Ameren Services on September 11, 1997 as a Personnel Analyst. On  
15 January 1, 1999 I was promoted to Human Resources Specialist. One year later, I was  
16 promoted to Organization Development Specialist. On April 1, 2004 I was promoted to  
17 Supervisor, Compensation. A year later I became responsible for the entire compensation  
18 function for all companies to which Ameren Services provides support, and on April 1, 2007  
19 I was promoted to Manager, Compensation & Performance. On January 1, 2008, my  
20 responsibilities were expanded to include workforce planning and policy oversight.

21 Q. Please describe your duties and responsibilities as Manager,  
22 Compensation & Performance.

1           A.     As Manager, Compensation & Performance I am responsible for all  
2 compensation (including base pay, incentive programs, executive compensation and  
3 recognition programs), performance management and workforce planning for all companies  
4 to which Ameren Services provides support, including Union Electric Company d/b/a  
5 AmerenUE ("AmerenUE" or "Company").

6           **Q.     Please describe your educational background and employment**  
7 **experience.**

8           A.     I hold a Master's Degree in Industrial/Organizational Psychology from  
9 Southern Illinois University at Edwardsville. In addition, I will complete my MBA from  
10 Webster University in October of this year. In addition to my academic training, I have over  
11 eleven years of human resources experience at progressive levels of responsibility and have  
12 attended many continuing education programs related to human resources strategy and  
13 compensation. I also served as adjunct faculty at St. Louis University between 2000 and  
14 2005, where I taught courses in Industrial Psychology. Prior to joining Ameren Services  
15 Company in 1997, I was employed by AAIM Management Association as Manager, Public  
16 Education.

17           **Q.     What is the purpose of your rebuttal testimony?**

18           A.     The purpose of my rebuttal testimony is to respond to the recommendations  
19 made by Missouri Public Service Commission Staff ("Staff") witness Jeremy Hagemeyer  
20 regarding incentive compensation contained in the Staff Report on AmerenUE's Cost of  
21 Service.

22   **II.     INCENTIVE COMPENSATION**

23           **Q.     What is Mr. Hagemeyer's position regarding incentive compensation?**

1           A.     Mr. Hagemeyer recommends that the Commission disallow all costs  
2 associated with AmerenUE's short-term incentive plans, long-term incentive plans, and spot  
3 bonus award program.

4           **Q.     What is your response?**

5           A.     I disagree with Mr. Hagemeyer's conclusion that all of AmerenUE's incentive  
6 compensation costs should be disallowed from rates for four specific reasons:

- 7           1. Both short and long-term incentive compensation plans are part and parcel of a  
8 competitive total rewards package in our industry – as well as many other  
9 industries;
- 10          2. The utility industry (as well as many other industries) is facing a shortage of  
11 skilled workers due to an aging workforce, less interest in skilled craft and  
12 engineering-related roles among those entering the workforce, as well as current  
13 economic conditions. All of these factors further necessitate a competitive total  
14 rewards package;
- 15          3. AmerenUE's current short-term incentive plans were redesigned (effective  
16 January 1, 2008) to address Commission feedback regarding incentive  
17 compensation design and metrics; and
- 18          4. All of AmerenUE's incentive plans are prudent and reasonable and designed to  
19 enhance employee performance.

20 Each of these statements will be discussed in more detail below.

21           **Q.     Before proceeding with additional detail, please define the terms you will**  
22 **be using throughout your rebuttal testimony.**

1           A.     Several terms that I will use frequently throughout the remainder of my  
2 rebuttal testimony include:

3           1. Officer – A senior level leader in the organization. Generally holds the title of  
4 Vice President, Senior Vice President, President or President & CEO.

5           2. Ameren Leadership Team (“ALT”) – A leader who is responsible for the strategy  
6 and direction of one or more major departmental or functional areas within the  
7 organization. Includes all Officers as well as leaders with the title of Manager or  
8 Director.

9           3. Management employees – Non-union, non-ALT employees. Generally includes  
10 supervisors, professionals and administrative employees who are not represented  
11 by a bargaining unit.

12          4. Union employees – Employees who are represented by a bargaining unit.

13          5. Key Performance Indicators (“KPIs”) – Specific measures used to communicate  
14 goals and drive performance. Some KPIs are tied to the short-term incentive  
15 plans and some are not. For the purposes of my rebuttal testimony, KPIs will  
16 refer to metrics used to incent employee performance.

17          **Q.     Please summarize the incentive compensation plans.**

18          A.     AmerenUE’s short-term incentive compensation plans are described in the  
19 following table:

1

<b>Plan</b>	<b>Eligible Employees</b>	<b>Plan Funding</b>	<b>Other Relevant Metrics</b>
Executive Incentive Plan for Officers (EIP-O)	Officers	100% earnings per share	KPIs and individual performance
Executive Incentive Plan for Managers & Directors (EIP-M)	Members of the Ameren Leadership Team below the Officer level	25% earnings per share and 75% KPIs	Individual performance
Ameren Management Incentive Plan (AMIP)	Management employees	100% KPIs	Individual performance
Ameren Marketing, Trading & Commodities Plan (AMTC)	A small group of management employees who perform specific roles within the trading or fuels organization.	100% KPIs (base) plus a role-specific metric	Individual performance
Ameren Incentive Plan (AIP)	Union employees	100% KPIs	None

2

3 AmerenUE's long-term incentive plans are described in the next table:

<b>Plan</b>	<b>Eligible Employees</b>	<b>Relevant Metrics</b>
Performance-Based Restricted Stock (Issued 2001-2005)	All members of the Ameren Leadership Team (Officers, Directors & Managers)	Awards have the potential to vest over a 7-year period from the date of grant based on earnings per share performance.
Performance-Share Units (Issued 2006-Present)	All members of the Ameren Leadership Team (Officers, Directors & Managers)	Share units vest based on a 3-year measure of total shareholder return

4

5 In addition, AmerenUE has an additional performance-based incentive program that allows  
6 non-ALT management employees to be rewarded, in a timely manner, for performance that  
7 exceeds expectations. This program is called the Exceptional Performance Bonus Program  
8 or EPB Program.

1           **Q.    Are there incentive compensation programs for which the Company is**  
2 **not seeking recovery in rates?**

3           A.    Yes.  In recognition of the Commission's prior guidance in this area,  
4 AmerenUE is not currently requesting recovery of the EIP-O, which applies to Officers and  
5 is funded solely based on earnings per share.

6           **Q.    Please explain why incentive compensation is an important element of a**  
7 **Company's total compensation package.**

8           A.    Incentive compensation is an important element of the total compensation  
9 package for employees in the electric and gas utility industry, as well as other industries, for  
10 several reasons.  First, it has become a very common component of the total compensation  
11 package in our industry.  In August of 2008, Hewitt & Associates reviewed the proxy  
12 statements of 37 of Ameren's peer utility companies.  This review indicated that 97.3% of  
13 Ameren's peer companies (or 36 out of 37) have short-term incentive plans for their  
14 executive population.  The same study indicated that 100% of Ameren's peer companies  
15 have long-term incentive plans for the same population.  In addition, my department  
16 contacted Towers Perrin (who conducts a key salary survey for the energy industry) to  
17 determine the prevalence of short-term incentive plans among respondents to their middle  
18 management and professional survey.  We received feedback that 93.2% (or 109 of the 117  
19 utility companies that participated in the survey) had short-term incentive compensation  
20 programs.  The eight companies who did not offer incentive compensation programs were  
21 smaller organizations.

22                       Second, multiple factors are coming together to create what will likely be  
23 long-term labor market challenges in our industry.  These factors include an aging workforce,



1 less interest in critical skilled craft and engineering related positions among individuals  
2 entering the workforce, and current economic conditions. In a 2007 report, the Center for  
3 Energy Workforce Development stated that the energy industry faces the prospect of “losing  
4 roughly half of its skilled workforce at a time when growing demands for electricity –  
5 coupled with a growing population and economy – are fueling demand for these workers.”  
6 The report goes on to estimate that by 2012 more than half of all non-nuclear power plant  
7 operators may need to be replaced, 52% of generation technicians will reach retirement  
8 eligibility, nearly 40% of lineworker jobs may need to be filled, and roughly 46% of all  
9 engineering jobs could become vacant. Similar to the rest of the industry, AmerenUE  
10 projects that 50% of its workforce will retire or leave the organization due to attrition over  
11 the next 10 years. Despite actively recruiting candidates for these positions (including  
12 offering a \$15,000 hiring bonus for lineworkers, a co-op program to attract engineers,  
13 partnerships with local schools, and other pro-active outreach measures), skilled and  
14 experienced workers remain very hard to recruit because we are competing with numerous  
15 utility companies for a limited supply of talent. To exacerbate the problem, the housing  
16 market crisis has made it particularly difficult to recruit employees from outside of the local  
17 area because many candidates are unable to sell their homes at a price that will cover their  
18 mortgage. This increases the level of competition (for new and current employees) across all  
19 industries at a local and regional level.

20 As a result of all of the issues described above, it is critical for AmerenUE to  
21 offer a total compensation package that will allow it to both attract and retain entry-level and  
22 experienced employees. Today, incentive compensation is an expected component of the  
23 total compensation package. If AmerenUE does not offer incentive compensation it will be

1 difficult to attract and retain employees who are likely to be offered a more complete total  
2 compensation package elsewhere. Ultimately, a competent, stable, focused and motivated  
3 workforce is critical to providing excellent service to our customers. AmerenUE strives to  
4 maintain a total rewards package that will attract, retain and motivate such a workforce.

5 **Q. What factors are used to determine whether AmerenUE's total**  
6 **compensation package is competitive?**

7 A. The Company provides a total rewards package that includes both base pay  
8 and incentive pay programs, in order to attract talent and remain competitive with other  
9 employers. Leveraging both base and incentive pay enables AmerenUE to limit its fixed  
10 costs (base pay), yet still reward outstanding employee performance (incentive pay). For  
11 example, if market data suggests that an appropriate total compensation level for a position is  
12 \$60,000 – rather than deliver all of this compensation through base salary, we evaluate what  
13 an appropriate base-level of compensation is for the position (again based on market data)  
14 and what percentage of the total compensation should be earned through performance-based  
15 incentives. This process ensures that employees are rewarded for performance. When  
16 employees bring significant value to the Company and customers by exceeding performance  
17 goals, they are rewarded. Similarly, if employees do not achieve performance goals, they  
18 may receive a total compensation package that is less than the median of the total  
19 compensation levels paid in the market. Thus, AmerenUE's management employees have a  
20 portion of their compensation "at risk" pending performance. My department uses reliable,  
21 third-party market data to determine competitive base and incentive (short-term and long-  
22 term) compensation levels for each position, thus ensuring that the Company's total  
23 compensation costs are prudent and reasonable. Each year we participate in numerous (a

1 dozen or more) salary surveys with reliable, third-party consulting firms such as Mercer HR  
2 Consulting, Towers Perrin, Hewitt & Associates, and Buck Consulting. We, along with  
3 many of our peer companies, submit data regarding the compensation package (base,  
4 incentive, total compensation, etc.) of incumbents in specific positions defined by the survey.  
5 The consulting firms review this information carefully and follow-up to ask questions and  
6 validate the information. They then analyze the data and develop detailed reports that help  
7 companies understand the compensation package for each of the reported positions. Data is  
8 reported in aggregate and also broken down by factors such as revenue, geographic location,  
9 and discipline. The rigorous process that we engage in to obtain valid market data and to  
10 apply that information within our Company ensures that AmerenUE's total compensation  
11 costs are prudent and reasonable while being market competitive.

12 **A. SHORT-TERM INCENTIVE PLANS**

13 **Q. Why did AmerenUE revise its short-term incentive compensation plans**  
14 **and when did the new plans come into effect?**

15 **A.** On January 1, 2007, the organizational structures of the operating subsidiaries  
16 owned by Ameren Corporation, including AmerenUE, were adjusted to place even greater  
17 emphasis on the unique needs of each of the operating units (e.g., AmerenUE) and their  
18 customers. To ensure that all short-term incentive plans were aligned with the new structure  
19 and focus, the Compensation and Performance Department worked closely with external  
20 advisors and leadership to review and refine the incentive compensation plans. As a part of  
21 the review process, we considered prior feedback from the Commission and, as a result,  
22 removed earnings per share as the primary funding mechanism for all but the EIP-O Plan.

1           **Q.     Please describe how the scorecard and KPI process associated with the**  
2 **incentive compensation plans work.**

3           A.     AmerenUE implemented the “balanced scorecard” concept over ten years ago.  
4 At a high-level, the purpose of a balanced scorecard is to help organizations achieve results  
5 by focusing on four critical areas: financial management of the business, process  
6 improvement, the customer, and employees. To that end, AmerenUE develops an overall  
7 AmerenUE scorecard with KPIs in each of the four critical areas described above. Each  
8 major functional group within AmerenUE then develops a scorecard that will contribute to  
9 the overall performance of AmerenUE. On each scorecard there are a number of KPIs,  
10 several of which are identified as incentive compensation KPIs. There are three levels of  
11 performance identified for each KPI: threshold, target, and maximum. The first level,  
12 “threshold”, represents the minimum acceptable level of goal achievement for any given KPI.  
13 The second level, “target” is a stretch goal that AmerenUE employees are striving to achieve.  
14 And the third level, “maximum” represents a level of performance that is very difficult to  
15 achieve. In most cases, industry benchmark data and/or data regarding historical  
16 performance are used to set appropriate performance levels. Scorecards, KPIs and  
17 threshold/target/maximum performance levels are reviewed annually and approved by the  
18 Company’s senior management.

19           **Q.     Please provide specific examples of how the short-term incentive plans**  
20 **provide direct benefits to customers.**

21           A.     AmerenUE uses many customer-focused incentive compensation  
22 goals/measures to focus their employees’ efforts on activities that will benefit customers, as  
23 shown in the following examples.

- 1           ▪ **Increased Reliability** – To encourage and ensure reliable service to  
2 customers, measures of electric reliability are regularly placed on scorecards  
3 and used to determine incentive compensation payouts. For example, in both  
4 2007 and 2008 relevant AmerenUE employees had two specific goals related  
5 to increasing service reliability. The first focused on completing projects  
6 which are expected to reduce the number of customers who experience 4 or  
7 more outages in a year by 50%. This resulted in a focus on thousands of  
8 reliability projects. The second focused on reducing the System Average  
9 Interruption Frequency Index (“SAIFI”) or the frequency of non-storm  
10 electric service disruptions that occur. Focusing employee efforts on  
11 important KPIs such as reducing SAIFI helps to improve performance. As a  
12 consequence of this extra focus, SAIFI has decreased every year since 2004.
- 13           ▪ **Increased Customer Satisfaction** – Another set of KPIs on which  
14 AmerenUE bases incentive awards is customer satisfaction. Customer  
15 satisfaction is regularly measured and analyzed to determine how to further  
16 improve service. Measuring and rewarding increased customer satisfaction  
17 motivates AmerenUE employees to enhance the customer’s experience, with  
18 respect to both the Company’s customer contact center and field services. In  
19 2007, relevant AmerenUE employees had a shared goal to increase their  
20 customer satisfaction index which is comprised of the scores from four  
21 customer surveys focusing on call center and/or field operations. In 2008, call  
22 center employees have a goal to improve their Call Center Index (“CCI”)  
23 scores. The CCI measures the level of satisfaction experienced by a customer

1 after they have had direct contact with a customer service representative in an  
2 AmerenUE contact center. In addition, call center employees have a goal to  
3 improve the annual average speed by which they answer calls in the queue.  
4 Field employees have a goal to increase field operations customer service.  
5 After a customer has an experience with one of our field employees they are  
6 contacted to obtain feedback regarding their experience. This survey is  
7 usually completed shortly after the customer experience and reported on a  
8 monthly basis. This ensures that AmerenUE receives immediate feedback  
9 regarding customer experiences and can adjust their practices as needed  
10 throughout the year. In 2006 and 2007 the field operations customer survey  
11 (formally called "FOCUS") remained consistent – and as of August, 2008,  
12 performance has shown an improvement. Undeniably, a strong, incentive-  
13 based focus on increasing both the technical and professional service that  
14 customers receive when interacting with AmerenUE employees directly  
15 benefits the customers.

- 16 ▪ **Improved Safety** – Another salient KPI used to determine employee  
17 incentive payouts is safety. In both 2007 and 2008 lost workday away cases  
18 (which measures the number of days an employee was assigned to work but  
19 could not because of occupational injury or illness) was included as a KPI  
20 relevant to the incentive compensation plan. Reducing lost workdays serves  
21 to reduce operating costs. When AmerenUE employees (most of which are  
22 also customers) do not work in a safe manner, they risk serious injury to  
23 themselves and/or others. One of the results of injury is that employees spend

1 time off work and are unable to provide service to customers. In addition,  
2 engaging in safe work practices in the field protects not only our employees,  
3 but our customers. The Company places a heavy emphasis on safety and  
4 reinforces this emphasis by giving safety metrics significant weight in  
5 incentive compensation calculations. And from 2006 to 2007 AmerenUE's  
6 lost workday away cases decreased from 17 to 10. This is a practice that  
7 benefits the customer by reducing operating costs, creating a safe environment  
8 for employees and customers alike, and creating a work environment that  
9 attracts the best employees.

- 10 ■ **Operational Performance** – Each year, AmerenUE ties several KPIs to  
11 operational performance. For example, Operations and Maintenance  
12 (“O&M”) Budget Compliance, Capital Budget Compliance, INPO  
13 Performance Index (a Nuclear-specific metric focused on plant performance),  
14 and identifying and implementing process efficiency projects that will  
15 positively impact the AmerenUE organization are all Key Performance  
16 Indicators. The budget-related metrics ensure that AmerenUE is using its  
17 resources wisely. Ultimately, lower cost operations lead to lower rates. Other  
18 process and performance improvement metrics ensure that AmerenUE is  
19 enhancing its ability to operate as effectively as possible, thus reducing rates  
20 over time when compared to less productive/efficient operations. Ultimately,  
21 AmerenUE's KPIs, reinforced by incentive payouts, have resulted in  
22 significant attention to important customer issues. This focus has resulted in  
23 both tangible benefits (e.g., increased system reliability, increased

1 performance, reduced lost workday away cases, etc.) and intangible benefits  
2 (employee alignment with key goals, prioritization of goals, etc.) – all of  
3 which help the Company provide safe and reliable service to our customers.  
4 The KPIs are adjusted each year, but the Company has a long history of  
5 including important customer metrics such as reliability, customer service,  
6 safety, and operational efficiency in the incentive plan every year. We fully  
7 expect this to continue into the future.

8 **Q. Please expand upon the basic structure of each of AmerenUE's short-**  
9 **term incentive plans.**

10 A.

- 11 ▪ The **EIP-O** is designed to ensure that the AmerenUE officers are focused, as a  
12 senior leadership team for AmerenUE, on the overall success of the business. As  
13 such, the EIP-O is funded 100% based on earnings per share results. The funded  
14 award ("core award") may be adjusted up or down based on the officer's personal  
15 performance and achievement of scorecard KPIs such as safety, reliability, and/or  
16 customer satisfaction. While we continue to believe that the financial success of  
17 our business is critical to our ability to effectively serve our customers, and  
18 earnings are enhanced by cost reductions, service improvements and other factors  
19 that benefit customers, we acknowledge the Commission's prior decisions that  
20 incentive compensation plans funded solely on the basis of earnings per share will  
21 be disallowed. Thus, we are not requesting recovery of costs associated with the  
22 EIP-O.



- 1           ▪ The EIP-M differs from the EIP-O in that 75% of the award is based on  
2           operational performance as measured by KPIs (such as those described earlier in  
3           my rebuttal testimony). Twenty-five percent of a Manager/Director's award will  
4           be based on AmerenUE's earnings. Similar to the EIP-O, each plan participant's  
5           core award (which is determined formulaically) may be adjusted up or down  
6           based on demonstrated leadership and contributions to goal achievement.
- 7           ▪ The AMIP is funded 100% based on achievement of pre-defined KPIs. These  
8           KPIs focus plan participants on key operational metrics such as safety, reliability,  
9           availability, and customer satisfaction. To ensure that each employee has a "line  
10          of sight" to the metrics that impact his or her compensation, the metrics vary by  
11          major workgroup or function. This helps to ensure that employees are rewarded  
12          for achieving goals that they are most able to influence or control. Similar to EIP,  
13          awards funded based on KPIs may be adjusted up or down to reflect individual  
14          contributions to group KPIs, or achievement of individual performance  
15          objectives.
- 16          ▪ The AMTC is an extension of the AMIP and was designed in response to  
17          significant competitive pressures for marketing and trading related skill sets. A  
18          small number (currently less than a dozen) of management professionals and  
19          supervisors are included in this plan based on their positions within AmerenUE.  
20          The plan includes two components. The first component is the base plan, which  
21          is essentially the same as the AMIP. The second component is called the  
22          supplemental component – and provides an additional group or position-specific  
23          metric for participants to achieve. Awards earned under the supplement are

1 converted to stock units (which mimic common stock) and are held for just under  
2 2 years (to promote employee retention) before being paid out in cash.

3 ▪ The **AIP** is funded and paid 100% based on incentive KPI performance. The  
4 KPIs are designed to focus employees on important operational goals that they  
5 can influence or control.

6 **Q. How are the 2008 incentive plans different from the 2007 plans?**

7 A. There are some similarities between the 2008 plans and the 2007 plans (e.g.,  
8 KPIs and individual performance remain important components of most plans). The most  
9 significant difference between the 2008 and 2007 incentive plans is that the plans (with the  
10 exception of the EIP-O Plan, the costs of which as I noted are not included in the Company's  
11 revenue requirement) are no longer funded by earnings per share. Instead, performance as  
12 measured by KPIs determines whether or not awards will be available under the plan.

13 **Q. How will compensation expenses under the 2008 short-term incentive  
14 plans differ from the compensation expenses associated with the prior plans?**

15 A. To estimate the costs associated with the 2008 incentive compensation plans,  
16 we conducted an analysis of what the payout would have been for the 2007 plan year if the  
17 2008 plan design were in effect. To perform this analysis, we used our employee population  
18 as of February 1, 2008, eliminated the EPS funding mechanism from the relevant plans  
19 (AMIP and AIP), and calculated performance based on the KPIs that were in place for 2007  
20 (incentive KPIs have always been a key component of our plan design). The results of the  
21 analysis indicate that payouts under the 2008 plan design would have been relatively similar  
22 to the payouts under the 2007 plan design. Specifically, AmerenUE paid out \$13.3 million in  
23 2008 for 2007 performance (note: this number excludes payments under the EIP-O). Our

1 analysis indicates that we would have paid \$12.7 million (for the same population of  
2 employees) under the 2008 plan design if it would have been in place for the 2007  
3 performance period.

4 **Q. Are the AmerenUE short-term incentive compensation plan costs prudent**  
5 **and reasonable?**

6 A. Yes. AmerenUE's incentive compensation plans are designed in a manner  
7 consistent with market practice. We focus on aligning both base and incentive compensation  
8 at the median of the market – and define the market as similarly sized companies within our  
9 industry. Additionally, our incentive plans require operational performance to be achieved  
10 for employees to be rewarded, ensuring that customers will benefit if KPIs are achieved and  
11 incentive awards are paid.

12 **B. EXCEPTIONAL PERFORMANCE BONUS PROGRAM (“EPB”)**

13 **Q. Mr. Hagemeyer also recommended the disallowance of AmerenUE's**  
14 **Exceptional Performance Bonus expenses, which as I understand it is an additional**  
15 **bonus plan that can supplement the AMIP. How do you respond?**

16 A. I disagree with Mr. Hagemeyer's recommendation to disallow the costs  
17 associated with the EPB. All non-ALT management employees (who are not eligible to  
18 receive exempt overtime pay) are eligible for the EPB program which provides them with the  
19 opportunity to receive timely bonus awards for exhibiting superior performance, above and  
20 beyond what is expected of them. This program is managed very conservatively by  
21 AmerenUE leadership ensuring that awards are only granted for truly outstanding  
22 performance. For example, as of the end of 3<sup>rd</sup> quarter 2008, only 60 of the eligible 868  
23 employees (approximately 7%) have received a bonus award under this program. To receive

1 an EPB, a supervisor completes a standard form explaining the outstanding performance and  
2 submits the completed form to senior leadership for review and approval. Awards under this  
3 plan generally range from \$500 to \$3,000. Many of the EPB awards paid within AmerenUE  
4 benefit the customer either directly or indirectly by rewarding and reinforcing high levels of  
5 performance. For example, a Division Superintendent recently received a \$3,500 EPB award  
6 for serving on a special project team that was focused on reviewing and modifying  
7 AmerenUE's job scheduling process to improve customer satisfaction. This employee  
8 played a key role on the team and then traveled to different operating centers to help others  
9 implement the changes – thereby ensuring system-wide benefits. This employee was also  
10 recognized for his leadership when traveling to a work territory well outside of his normal  
11 territory to lead storm restoration efforts. In another example, a Superintendent received an  
12 EPB of \$2,500 after being called at home on a day off and asked to come to work to lead a  
13 contingent of over 100 contractor linemen and support personnel during an ice storm. Not  
14 only did the employee willingly take on the challenge, he successfully coordinated the efforts  
15 of AmerenUE's resources and the contractor's resources to facilitate the restoration process.  
16 He was praised by many for his outstanding efforts. Superintendents are not eligible to  
17 receive overtime pay. Thus, these individuals do not receive additional compensation when  
18 working overtime – even in demanding emergency situations. In the cases described above,  
19 the EPB program provided recognition to two key employees who demonstrated exceptional  
20 efforts to support the customer. The EPB program serves to encourage high levels of  
21 performance by directly reinforcing the desired behaviors in a tangible and compelling  
22 manner.

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**C. LONG-TERM INCENTIVE PLANS**

**Q. Mr. Hagemeyer also recommended the disallowance of AmerenUE's long-term incentive expenses. How do you respond?**

A. The purpose of a long-term incentive plan is to ensure that the Company's leaders are focused not only on the short term success of the organization, but also on the long-term success of the organization. Most long-term incentive plan designs provide leaders with an equity stake in the business. At an executive level it is always important to balance both the achievement of short-term goals with a focus on the continued success of the organization. For example, if a leader chooses not to repair or improve an asset in the current year, that delay could have a negative impact in a future year. It's critical for leadership to constantly be weighing and balancing short- and long-term decisions to ensure the long-term viability and success of the Company. The tool that many companies use to help support this balanced thinking is a long-term incentive program. Long-term incentive programs have become a common component of the executive-level total rewards package. In fact, it is difficult to compete for top executive talent without such a program in place. Hewitt & Associates recently conducted a review of the proxy statements of 37 of Ameren's peer companies and found that 100% of these companies utilize one or more long-term incentive vehicles (e.g., stock options, restricted stock, performance plans, etc.) to incent their executives.

In the year 2001, Ameren implemented a restricted stock plan for ALT-level employees. This plan was in place through 2005 and was replaced by the Performance Share Unit Program ("PSUP") in 2006. Both of these plans are designed to focus leaders on the long-term success of the organization while increasing their equity stake in the organization

1 (thus promoting good decision making). The restricted stock program provided participants  
2 with annual grants of stock that vested over a 7-year period based on earnings performance.  
3 Under the PSUP, leaders receive annual grants of performance share units (which are the  
4 right to receive stock if certain performance criteria are met). After a 3-year performance  
5 period Ameren's Total Shareholder Return ("TSR") is measured and compared to the TSR of  
6 peer companies. Ameren's TSR performance is evaluated on a relative basis and between  
7 0% and 200% of the performance share units are vested as a result. Hewitt & Associate's  
8 study demonstrated that 86% of the companies who are using performance plans as one of  
9 their long-term incentive vehicles use TSR as their sole measure. Ameren's long-term  
10 incentive plans have been and continue to be designed in a market-competitive, yet prudent  
11 manner. The Company's long-term incentive plans provide customer value by ensuring a  
12 balanced focus on cost management and system investment thus helping to keep reliability  
13 high and rates low over time. In addition, the plans help the Company to attract, motivate  
14 and retain a stable and skilled leadership team. The payment of awards under these plans is  
15 dependent upon long-term performance of the Company and support an overall market-  
16 competitive compensation package.

17 **Q. Does this conclude your rebuttal testimony?**

18 **A. Yes, it does.**

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

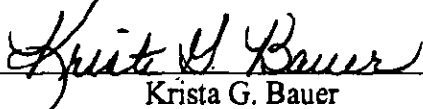
In the Matter of Union Electric )  
Company d/b/a AmerenUE for )  
Authority to File Tariffs Increasing )  
Rates for Electric Service Provided ) Case No. ER-2008-0318  
To Customers in the Company's )  
Missouri Service Area. )

**AFFIDAVIT OF KRISTA G. BAUER**

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

Krista G. Bauer, being first duly sworn on her oath, states:

1. My name is Krista G. Bauer. I am employed by Ameren Service Company as Manager, Compensation and Performance.
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 20 pages, 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.

  
\_\_\_\_\_  
Krista G. Bauer

Subscribed and sworn to before me this 10<sup>th</sup> day of October, 2008.

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

My commission expires: \_\_\_\_\_

