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Missouri Public  
Service Commission

Exhibit No.:

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Issue: Incentive Compensation

Witness: Deborah Hays

Exhibit Type: Rebuttal Testimony

Sponsoring Party: Missouri Gas Energy

Case No.: GR-2004-0209

Date Filed: May 24, 2004

MISSOURI PUBLIC SERVICE COMMISSION

MISSOURI GAS ENERGY

CASE NO. GR-2004-0209

REBUTTAL TESTIMONY

OF

DEBORAH HAYS

ON BEHALF OF MISSOURI GAS ENERGY

Jefferson City, Missouri

May 2004

**REBUTTAL TESTIMONY OF DEBORAH HAYS  
ON BEHALF OF  
MISSOURI GAS ENERGY**

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

2     A.     My name is Deborah Hays and my business address is 3420 Broadway, Kansas City,  
3             Missouri.

4  
5     **Q.     FOR WHOM DO YOU WORK AND WHAT IS YOUR JOB TITLE?**

6     A.     I am the Vice President of Human Resources for Missouri Gas Energy ("MGE"), a  
7             division of Southern Union Company.

8  
9     **Q.     WHAT ARE YOUR JOB RESPONSIBILITIES AS VICE PRESIDENT OF**  
10            **HUMAN RESOURCES FOR MGE?**

11    A.     I am responsible for the strategic and operational functions of MGE's Human Resources  
12            Department, including benefits, compensation, labor/employee relations, compliance, and  
13            recruitment.

14  
15   **Q.     PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**  
16            **EMPLOYMENT EXPERIENCE PRIOR TO COMING TO WORK FOR MGE.**

17    A.     I have a Master's degree in Public Administration from the University of Missouri at  
18            Kansas City. I am also certified in my profession as a Senior Professional in Human  
19            Resources ("SPHR"). This certification "signifies that an individual has demonstrated  
20            mastery of the HR body of knowledge and, through re-certification, has accepted the

1 challenge to stay informed of new developments in the HR field” as stated by HRCI, the  
2 accrediting organization.

3  
4 For over twenty years I have worked in generalist positions in Human Resources, with  
5 fifteen years in the senior Human Resources position in various industries. In addition, I  
6 have worked as a Human Resources consultant working with small and medium-sized  
7 organizations in a variety of industries in the areas of compensation, compliance,  
8 employee relations, training, recruitment, and communications.

9  
10 Both my “in house” and consulting Human Resources experience includes responsibility  
11 for all areas of Human Resources such as:

- 12 • Design and implementation of benefits programs and plans;
- 13 • Design and implementation of compensation plans and structures;
- 14 • Labor contract negotiations;
- 15 • Design and implementation of recruitment strategies;
- 16 • Training, both technical and soft skills;
- 17 • Design and implementation of wellness initiatives;
- 18 • Writing policies, procedures, handbooks, etc.;
- 19 • Employee coaching, counseling, and discipline;
- 20 • Compliance with applicable laws and regulations;
- 21 • Strategic planning;

- Executive coaching; and
- Employee communication strategies and materials.

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

A. To respond to the direct testimony of Staff witnesses Eaves and Hyneman which testimony recommends the disallowance of financially-based incentive compensation, I will offer testimony regarding the reasonableness and necessity of MGE's and Southern Union's market-based incentive compensation practices.

**Q. HOW DO MGE'S INCENTIVE COMPENSATION PRACTICES COMPARE TO THE MARKET GENERALLY?**

A. According to a survey done by Watson Wyatt, an organization which, a global consulting firm focused on human capital and financial management, 69.4% of organizations have formally established bonuses for executives. In the for-profit category, this number is 73.6% and for publicly traded companies it is 82.5%. For Utilities and Energy Companies, the number is 75%. This clearly demonstrates that the Company's use of incentive compensation is well within the mainstream of market practices. The results of this survey are shown in Schedule DH-1.

1 Q. DO HUMAN RESOURCES PROFESSIONALS TYPICALLY RELY ON  
2 MATERIAL SUCH AS THE WATSON WYATT SURVEY IN DEVELOPING  
3 AND IMPLEMENTING COMPENSATION PLANS?

4 A. Yes. Such surveys are necessary to understand what is available in the market and are a  
5 reliable tool to help establish competitive compensation plans.  
6

7 Q. PLEASE DESCRIBE WHY COMPANIES OFFER INCENTIVE  
8 COMPENSATION.

9 A. Incentive compensation—also sometimes called variable pay—is primarily used for  
10 executives because they have the greatest opportunity to influence the performance of the  
11 organization and is based on the belief that a portion of such employees' compensation  
12 should vary depending upon the success of the organization in attaining goals and  
13 objectives. Incentive compensation, therefore, is useful in spurring employees to take  
14 action in furtherance of the organization's performance objectives.  
15

16 In recent years more companies have implemented incentives for employees in all levels  
17 in the organization. Companies are more frequently linking incentive payouts to  
18 financial results. The idea is to create a partnership with employees, instilling more of a  
19 sense of accountability and ownership, and sharing in the financial outcome of both good  
20 and bad times.  
21

1 Incentive compensation is also useful as an employee recruitment and retention tool in  
2 that it is viewed by employees as compensation that may be attained, even if it is not  
3 entirely certain of being attained on an annual basis. Consequently, the opportunity to  
4 attain incentive compensation is viewed by employees as a part of the overall  
5 compensation package and, as such, is compared to what is available elsewhere in the  
6 market as employees and prospective employees make decisions about where they want  
7 to work.

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

10 **A.** Yes, at this time.  
11  
12

BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MISSOURI

In the Matter of Missouri Gas Energy's  
Tariff Sheets Designed to Increase Rates  
for Gas Service in the Company's Missouri  
Service Area.

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Case No. GR-2004-0209

AFFIDAVIT OF DEBORAH HAYS

STATE OF MISSOURI )

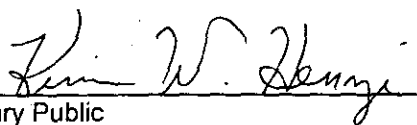
) ss.

COUNTY OF JACKSON )

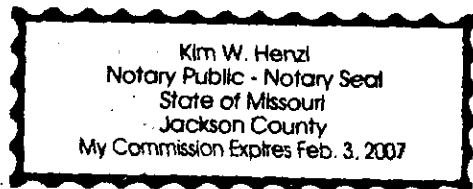
Deborah Hays, of lawful age, on her oath states: that she has participated in the preparation of the foregoing Rebuttal Testimony in question and answer form, to be presented in the above case; that the answers in the foregoing Rebuttal Testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true and correct to the best of her knowledge and belief.

  
DEBORAH HAYS

Subscribed and sworn to before me this 20<sup>th</sup> day of MAY 2004.

  
Notary Public

My Commission Expires: Feb 3, 2007



**BONUS TARGETS****PREVALENCE OF ORGANIZATIONS WITH FORMALLY ESTABLISHED TARGET BONUSES FOR EXECUTIVES**

	Have Formally Established Target Bonuses		# of Responses
	% of Orgs.	% of Orgs.	
Entire Sample Combined.....	542	69.4%	781
<b>Profit Status</b>			
For-Profit Organizations.....	496	73.6%	674
Not-For-Profit Organizations.....	46	43.0%	107
<b>Stock Ownership Type</b>			
Publicly Traded.....	297	82.5%	360
Privately Held.....	186	62.4%	298
<b>Industry Sector</b>			
Durable Goods Manufacturing.....	140	71.8%	195
Non-Durable Goods Manufacturing.....	80	71.4%	112
Utilities and Energy.....	39	75.0%	52
Retail and Wholesale Trade.....	60	83.3%	72
Services.....	123	59.7%	206
Health Care.....	32	74.4%	43
Banking and Finance.....	26	56.5%	46
Insurance.....	42	76.4%	55
<b>Organization Size</b>			
Under 500 FTEs.....	98	48.5%	202
500 - 999 FTEs.....	62	66.0%	94
1,000 - 1,999 FTEs.....	80	69.6%	115
2,000 - 4,999 FTEs.....	123	75.5%	163
5,000 or more FTEs.....	179	86.5%	207