

Exhibit No.:
Issue(s): Incentive
Compensation/Executive
Compensation
Witness: Krista Bauer
Sponsoring Party: Union Electric Company
Type of Exhibit: Rebuttal Testimony
Case No.: ER-2010-0036
Date Testimony Prepared: February 11, 2010

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO. ER-2010-0036

REBUTTAL TESTIMONY

OF

KRISTA G. BAUER

ON

BEHALF OF

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

**St. Louis, Missouri
February 11, 2010**

TABLE OF CONTENTS

SHORT-TERM INCENTIVE PLANS	13
EXECUTIVE COMPENSATION	21
LONG-TERM INCENTIVE PLANS	22

1 **REBUTTAL TESTIMONY**

2 **OF**

3 **KRISTA G. BAUER**

4 **CASE NO. ER-2010-0036**

5
6 **Q. Please state your name and business address.**

7 A. My name is Krista 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 Manager,
11 Compensation & Talent Acquisition.

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

13 A. I joined Ameren Services on September 11, 1997 as a Personnel Analyst. On
14 January 1, 1999 I was promoted to Human Resources Specialist. One year later, I was promoted
15 to Organization Development Specialist. On April 1, 2004 I was promoted to Supervisor,
16 Compensation. A year later I became responsible for the entire compensation function for all
17 companies to which Ameren Services provides support, and on April 1, 2007 I was promoted to
18 Manager, Compensation & Performance. On January 1, 2008, my responsibilities were
19 expanded to include workforce planning and policy oversight. And on November 1, 2009 I was
20 promoted to Manager, Compensation and Talent Acquisition.

1 **Q. Please describe your duties and responsibilities as Manager, Compensation**
2 **& Talent Acquisition.**

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

8 **Q. Please describe your educational background and employment experience.**

9 A. I hold a Master's Degree in Industrial/Organizational Psychology from Southern
10 Illinois University at Edwardsville and a MBA from Webster University. In addition to my
11 academic training, I have over twelve years of human resources experience at progressive levels
12 of responsibility and have attended many continuing education programs related to human
13 resources strategy and compensation. I also served as adjunct faculty at St. Louis University
14 between 2000 and 2005, where I taught courses in Industrial Psychology. Prior to joining
15 Ameren Services Company in 1997, I was employed by AAIM Management Association as
16 Manager, Public 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 made
19 by MIEC witnesses James Selecky regarding incentive compensation and Greg Meyer regarding
20 incentive compensation and the compensation of AmerenUE's top executives. In addition, my
21 rebuttal testimony will respond to the recommendations made by Staff Witness Kofi Agyenim
22 Boateng regarding long-term incentive compensation.

1 **Q. What are the positions of Mr. Selecky, Mr. Meyer and Mr. Boateng**
2 **regarding AmerenUE's compensation programs?**

3 A. Mr. Selecky recommends that the Commission disallow all costs associated with
4 AmerenUE's short-term incentive plans on a one-time basis due to economic conditions and
5 Company performance. Mr. Meyer recommends that an adjustment be made to remove the
6 portion of the EIP-M that is based on financial goals. And Mr. Boateng recommends the
7 disallowance of 100% of Ameren's long-term incentive compensation costs. In addition,
8 Mr. Meyer recommends the exclusion of all pay for AmerenUE's top five executives.

9 **Q. What is your response to Mr. Selecky's recommendations?**

10 A. I disagree with Mr. Selecky's conclusion that all of AmerenUE's incentive
11 compensation costs should be disallowed from rates on a one-time basis due to economic
12 conditions and Company performance for 5 specific reasons:

- 13 1. Both short and long-term incentive compensation plans are part and parcel of a
14 competitive total rewards package in our industry – as well as many other industries –
15 and the current economic environment has had little impact on this fact;
- 16 2. The utility industry (as well as many other industries) will continue to face challenges
17 replacing the large number of employees who will retire in the coming years.
18 Because many of AmerenUE's positions require significant training, specialized
19 degrees and/or experience, the current unemployment rate does not significantly
20 reduce this challenge;
- 21 3. AmerenUE's current short-term incentive plans focus on critical operational metrics
22 and continue to demonstrate tangible performance improvements on metrics that
23 directly impact the customer;

1 4. AmerenUE has taken the appropriate actions to address labor costs without impacting
2 its incentive plans. All of AmerenUE's incentive plans are prudent and reasonable
3 and designed to drive employee performance toward customer-focused goals; and

4 5. AmerenUE adjusted its incentive plans to be responsive to Commission feedback.
5 Those changes resulted in the Commission's approval of the costs of all incentive
6 plans, except the Executive Incentive Plan for Officers, in our rates.¹ The basis for
7 approving these incentive compensation costs has not changed in that the
8 Commission's reason for including these costs in rates was not the economic
9 circumstances existing at that time.

10 **Q. What is your response to Mr. Meyer's recommendations?**

11 A. I disagree that all compensation for AmerenUE's top 5 executives should be
12 excluded from rates. Mr. Meyer's recommendation appears arbitrary (as it is not based on
13 information related to this case) and is inappropriate. I also disagree that a portion of the EIP for
14 Managers and Directors should be excluded. The EIP for Managers focuses on many metrics
15 that benefit the customer directly. In addition, a quarter of their award is based on Ameren's
16 earnings performance – which we continue to believe is important to ensure a strong, stable and
17 efficient organization, and to encourage cost control.

18 **Q. How do you respond to Mr. Boateng's recommendations?**

19 A. I also disagree that AmerenUE's long-term incentive plans should be
20 automatically excluded from rates. Again, AmerenUE's long-term incentive plans are part and
21 parcel of a competitive executive incentive package and designed to provide balance to short-
22 term decision making.

¹ The Company has not included any costs associated with the Executive Incentive Plan for Officers in its revenue requirement in this case.

1 All of these issues will be discussed in more detail throughout my rebuttal testimony.

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

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

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

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

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

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

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

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

21 A. AmerenUE's short-term incentive compensation plans are described in the
22 following table:
23

Plan	Eligible Employees	Plan Funding	Other Relevant Metrics
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

1

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

Plan	Eligible Employees	Relevant Metrics
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

3

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

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

3 A. Yes. In recognition of the Commission's prior feedback regarding our incentive
4 compensation plans and general perceptions regarding short-term executive incentive plans,
5 AmerenUE is not currently requesting recovery of the EIP-O, which applies to Officers and is
6 funded solely based on earnings per share.

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

9 A. It is critical for AmerenUE to offer a total compensation package that will allow it
10 to both attract and retain entry-level and experienced employees. Today, incentive compensation
11 is an expected component of the total compensation package. If AmerenUE does not offer
12 incentive compensation it will be difficult to attract and retain employees who are likely to be
13 offered a more complete total compensation package elsewhere. Moreover, a pure salary
14 approach lessens the connection between pay and performance; specifically, base salaries are
15 paid whether performance objectives are met or not, and sole reliance on base salary would
16 significantly limit the Company's ability to motivate and reward its employee's for superior
17 performance. Ultimately, a competent, stable, focused and motivated workforce is critical to
18 providing excellent service to our customers. AmerenUE strives to maintain a total rewards
19 package that will attract, retain and motivate such a workforce.

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

22 A. The Company provides a total rewards package that includes both base pay and
23 incentive pay programs, in order to attract talent and remain competitive with other employers.

1 Leveraging both base and incentive pay enables AmerenUE to limit its fixed costs (base pay), yet
2 still reward outstanding employee performance (incentive pay). For example, if market data
3 suggests that an appropriate total compensation level for a position is \$60,000 – rather than
4 deliver all of this compensation through base salary, we evaluate what an appropriate base-level
5 of compensation is for the position (again based on market data) and what percentage of the total
6 compensation should be earned through performance-based incentives. This process ensures that
7 employees are rewarded for performance. When employees bring significant value to the
8 Company and customers by exceeding performance goals, they are rewarded. Similarly, if
9 employees do not achieve performance goals, they may receive a total compensation package
10 that is less than the median of the total compensation levels paid for that position in the market.
11 Thus, AmerenUE’s management employees have a portion of their compensation “at risk”
12 pending performance.

13 My department uses reliable, third-party market data to determine competitive
14 base and incentive (short-term and long-term) compensation levels for each position, thus
15 ensuring that the Company’s total compensation costs are prudent and reasonable. Each year we
16 participate in numerous (a dozen or more) salary surveys with reliable, third-party consulting
17 firms such as Mercer HR Consulting, Towers Perrin, and Hewitt & Associates. We, along with
18 many of our peer companies, submit data regarding the compensation package (base, incentive,
19 total compensation, etc.) of incumbents in specific positions defined by the survey. The
20 consulting firms review this information carefully and follow-up to ask questions and validate
21 the information. They then analyze the data and develop detailed reports that help companies
22 understand the compensation package for each of the reported positions. Data is reported in
23 aggregate and also broken down by factors such as revenue, geographic location, and discipline.

1 The rigorous process that we engage in to obtain valid market data and to apply that information
2 within our Company ensures that AmerenUE's total compensation costs are prudent and
3 reasonable while being market competitive.

4 **Q. Is incentive compensation still prevalent given the economic environment?**

5 A. Yes. During challenging economic times, most companies will adjust their
6 compensation strategies to responsibly manage labor costs. A common strategy in this situation
7 is to manage merit budgets tightly to avoid significant increases in fixed costs while maintaining
8 variable pay programs (such as AmerenUE's incentive compensation program) which provide
9 rewards based on performance. On August 13, 2009 the following statement was made in an
10 article featured by *PayScale*, (a market leader in global, online compensation data): "...in this
11 economy, they [variable pay programs] can be an even more important tool for accomplishing
12 retention and recognition than ever. With base salary budgets at their lowest point in 30 years,
13 variable pay programs can be incorporated into very effective low-cost salary programs. The
14 added benefit of variable pay programs is that they can be more directly tied to corporate
15 performance objectives and only paid out if goals are achieved." In line with this statement, we
16 have seen very little decrease in incentive compensation programs within the utility industry,
17 general industry or among local organizations. For example, my department contacted Towers
18 Perrin (who conducts a key salary survey for the energy industry) to determine the prevalence of
19 short-term incentive plans among respondents to their 2009 middle management and
20 professional survey. We received feedback that 90.2% (or 119 of the 132 utility companies that
21 participated in the survey) had short-term incentive compensation programs. The thirteen
22 companies that did not offer incentive compensation programs were smaller organizations. In a
23 report published by Mercer (a consulting firm that also publishes salary survey data) it was stated

1 that 92% of responding for-profit organizations (representing general industry) have short-term
2 incentive plans and that, since 2006, 24% of organizations have increased the number of
3 employees eligible for short-term incentive programs. To confirm that large organizations in the
4 St. Louis area have not reduced or eliminated their short-term incentive compensation programs,
5 we also reached out to a network of our peers in January of 2010. Of the twelve St. Louis area
6 employers who responded to our query, none of them have made negative changes to their plans
7 as a result of the economic environment.

8 **Q. Even if companies have retained their incentive plans, are they still necessary**
9 **in today's environment?**

10 A. Absolutely. AmerenUE has a prudent and market-based compensation program
11 in place and has taken thoughtful and appropriate actions to manage labor costs given current
12 economic conditions. It is critical that AmerenUE maintain a long-term perspective regarding its
13 workforce. AmerenUE will have to continue to compete for talent now and in the future and
14 must maintain an appropriate overall compensation package. In addition, the Commission
15 approved the recovery of AmerenUE's short-term incentive plans (with the exception of the EIP
16 for Officers – for which we did not request recovery) in the last case – less than one year ago.
17 Barring material changes to AmerenUE's short-term incentive plans, it is important to have
18 stability on this issue. We have not changed our philosophy regarding incentive compensation –
19 and a regulatory environment that would cause us to regularly change our approach and/or
20 offering of incentive compensation would ultimately be detrimental to our workforce and our
21 ability to attract and retain qualified candidates.

1 **Q. Witness Selecky’s testimony suggests that unemployment rates in Missouri**
2 **have increased – so why do you need incentive compensation to compete for talent?**

3 A. Again, AmerenUE must take a long-term perspective regarding compensation
4 programs to ensure that we are able to attract, retain and motivate a talented and skilled
5 workforce today and in the future. As a result, I don’t believe that current statistics regarding
6 unemployment rates are relevant. That said, I will offer a slightly different perspective regarding
7 unemployment rates to paint a broader picture regarding the impact. Mr. Selecky states that the
8 unemployment rate in the State of Missouri increased to 9.3% in September of 2009. This
9 statistic alone may lead one to believe that there are plenty of workers to fill open positions and
10 that AmerenUE does not need to offer incentive compensation to compete for talent. This data
11 point, however, does not tell the whole story and could quickly lead one to the wrong conclusion.
12 To understand the true challenge that AmerenUE and many other companies will face in the near
13 future, you must first understand the demographic make-up of the organization. Currently, 20%
14 of AmerenUE’s employees are eligible to retire. Our forecasts suggest that within the next ten
15 years (i.e., through 2020), 62% of AmerenUE’s current employees will retire or leave the
16 organization due to attrition. Thus, AmerenUE will be required to replace the majority of its
17 workforce. Many of the roles within AmerenUE and Ameren Services are skilled in nature,
18 requiring either a Bachelor’s degree in a specific specialization or significant training. For
19 example, candidates for an apprentice lineman position must complete an assessment process
20 demonstrating their aptitude and ability to learn/perform the work. If they are successful in this
21 process, it takes 2 ½ to 3 years to train the individual to become a Lineman. And while the
22 general unemployment rate is higher than normal, the national unemployment rate for
23 individuals holding college degrees is 5% and the national unemployment rate for

1 management/professional occupations is 4.6% (both data points are as of December, 2009).
2 Thus, finding qualified candidates for skilled and specialized positions continues to be
3 challenging. In addition to concerns about our ability to replace talent as individuals retire,
4 AmerenUE is concerned about retaining high performing employees within the organization. A
5 study by the Corporate Leadership Council in March of 2009 indicated that the best employees
6 are more likely to leave their employers when the economy rebounds. The Corporate Leadership
7 Council's research suggests that employers can increase their chance of retaining high
8 performing employees when there is a culture of "meritocracy" (i.e., rewards based on
9 performance). In summary, incentive compensation helps AmerenUE maintain a performance-
10 based pay program, attract skilled and specialized talent to roles within the organization and
11 retain top talent. This is aligned with our long-term talent strategy and in the best interest of our
12 customers. Our ability to do this, however, is not directly correlated with Missouri's current,
13 overall unemployment rate.

14 **Q. Do you agree with witness Selecky's recommendation that incentive**
15 **compensation be disallowed on a one-time basis due to the economic environment and**
16 **company performance.**

17 A. No. AmerenUE has taken the appropriate actions to effectively manage its labor
18 costs during this difficult economic time. For example, members of the Ameren Leadership
19 Team did not receive merit increases in 2010. In addition, the vast majority of non-ALT
20 management employees will also receive no pay increase in 2010. However, we have
21 maintained a significantly reduced budget to address pay compression between first line
22 supervisors and their direct reports and other unique and critical pay or retention issues that
23 affect a very limited number of employees. These actions are responsive to the economic

1 environment and consistent with the compensation strategy employed by many large
2 organizations. Incentive compensation continues to be a critical component of our overall
3 rewards strategy and requires our employees to perform in order to earn their incentive awards. I
4 would also like to note that, in his testimony, witness Selecky references AmerenUE's financial
5 performance (stock price decline and dividend cut) as part of his rationale for excluding
6 incentive compensation on a one-time basis. In response to prior Commission feedback,
7 AmerenUE revised its incentive plans to focus heavily on operational performance. It is unfair
8 to request that AmerenUE focus its incentive plan on operational goals rather than financial
9 performance and then suggest that incentive costs should be excluded for ratemaking purposes
10 because of financial performance. What is relevant is that operational performance has remained
11 high – and has continued to improve in several areas critical to AmerenUE's customers.

12 13 **SHORT-TERM INCENTIVE PLANS**

14 **Q. Please describe how the Company's short-term incentive compensation plans**
15 **work.**

16 **A.** AmerenUE implemented the "balanced scorecard" concept over ten years ago. At
17 a high level, the purpose of a balanced scorecard is to help organizations achieve results by
18 focusing on four critical areas: financial management of the business, process improvement, the
19 customer, and employees. To that end, AmerenUE develops an overall AmerenUE scorecard
20 with Key Performance Indicators (KPIs) in each of the four critical areas described above. Each
21 major functional group within AmerenUE then develops a scorecard that will contribute to the
22 overall performance of AmerenUE. On each scorecard there are a number of KPIs, several of
23 which are identified as incentive compensation KPIs. There are three levels of performance
24 identified for each KPI: threshold, target, and maximum. The first level, "threshold", represents

1 continuous improvement and is the minimum acceptable level of goal achievement for any given
2 KPI. The second level, “target” is a stretch goal that AmerenUE employees are striving to
3 achieve. And the third level, “maximum”, represents a level of performance that is very difficult
4 to achieve. In most cases, industry benchmark data and/or data regarding historical performance
5 are used to set appropriate performance levels. Scorecards, KPIs and threshold/target/maximum
6 performance levels are reviewed annually and approved by the Company’s senior management.

7 **Q. Please provide specific examples of how the AmerenUE incentive plans**
8 **directly benefit the customer.**

9 A. AmerenUE has a history of using many customer-focused incentive compensation
10 goals/measures to focus its employees’ efforts on activities that will directly benefit customers,
11 as shown in the following examples.

- 12 **▪ Increased Reliability** – To encourage and ensure reliable service to customers,
13 measures of electric reliability are regularly placed on scorecards and used to
14 determine incentive compensation payouts. For example, in 2008 and 2009
15 relevant AmerenUE employees had two specific goals related to increasing
16 service reliability. The first focused on completing projects which are expected to
17 reduce the number of customers who experience 4 or more outages, three years in
18 a row by 50%. The second goal focused on reducing the System Average
19 Interruption Frequency Index (SAIFI) or the frequency of non-storm electric
20 service disruptions that occur. To improve performance and achieve these goals,
21 numerous projects were undertaken. As a result, SAIFI performance has
22 improved every year since 2004. From 2008 to 2009, SAIFI decreased from 1.18
23 to .98 (expressed in interruptions per customer per year). In this same time

1 period, the customers who experienced 4 or more outages, three years in a row
2 decreased from 8,044 to 5,144. The focus on and improvement of customer
3 reliability undeniably benefits AmerenUE's customers and is responsive to
4 concerns customers have repeatedly raised.

- 5 ■ **Increased Customer Satisfaction** – Another set of KPIs on which AmerenUE
6 bases incentive awards is customer satisfaction. Customer satisfaction is
7 regularly measured and analyzed to determine how to further improve service.
8 Measuring and rewarding increased customer satisfaction motivates AmerenUE
9 employees to enhance the customer's experience, with respect to both the
10 Company's customer contact center and field services. In 2008 and 2009, call
11 center employees had a goal (tied to their incentive compensation) to improve
12 their Call Center Index (CCI) scores. The CCI measures the level of satisfaction
13 experienced by a customer after they have had direct contact with a customer
14 service representative in an AmerenUE contact center. To measure this aspect of
15 customer service, a third-party vendor contacts a random sample of customers and
16 asks them to rate the customer representative they dealt with on a scale of 1 – 10,
17 with 10 being the highest rating. Customers rate factors such as how
18 knowledgeable, courteous, and friendly the representative was as well as whether
19 or not they were able to effectively handle the customer's request. CCI scores
20 improved from 2008 to 2009 from 87% to 90% (which reflects an increase in the
21 number of customers rating their customer service experience as an 8, 9, or 10 –
22 on a 10 point scale). In addition, field employees have a goal to increase field
23 operations customer service. After a customer has an experience with one of our

1 field employees in one of our five highest volume transactional areas, they are
2 eligible to be randomly surveyed regarding their experience. This survey is
3 usually completed shortly after the customer experience and reported on a
4 monthly basis. This ensures that AmerenUE field personnel receive immediate
5 feedback regarding customer experiences and can adjust their practices as needed
6 throughout the year. It also enables leadership to identify specific initiatives that
7 may help increase customer satisfaction. For example, two specific initiatives
8 were implemented in an effort to improve customer service/satisfaction by
9 increasing communication with customers. First, AmerenUE created a dedicated
10 hotline for construction/new business calls because these types of calls tend to be
11 more specialized and complex. And second, AmerenUE started contacting
12 customers via automated phone calls after their streetlights have been repaired (or
13 to inform them of the status of repair work that may be a little more involved). As
14 a result of these and other initiatives, the Field Operations Customer Service
15 (“FOCUS”) score increased from 87% to 92% from 2008 to 2009. Consistent
16 with the Customer Contact Index, this reflects an increase in the number of
17 customers rating their customer service experience as an 8, 9, or 10 – on a 10
18 point scale. Undeniably, a strong focus on increasing the service that customers
19 receive when interacting with AmerenUE employees, including through goals tied
20 to incentive compensation, directly benefits the customers.

- 21 ■ **Improved Safety** – Another salient KPI used to determine employee incentive
22 payouts is employee safety. In 2008 and 2009 lost workday away cases (which
23 measures the number of days an employee was assigned to work but could not

1 because of occupational injury or illness) was included as a KPI relevant to the
2 incentive compensation plan. Reducing lost workdays serves to reduce operating
3 costs. When AmerenUE employees (most of which are also customers) do not
4 work in a safe manner, they risk serious injury to themselves and/or others. One
5 of the results of injury is that employees spend time off work and are unable to
6 provide service to customers. Engaging in safe work practices in the field
7 protects not only our employees, but our customers, and the public at large. The
8 Company places a heavy emphasis on safety and reinforces this emphasis by
9 giving safety metrics significant weight in incentive compensation calculations.
10 Actions taken to improve safety performance in 2009 included roll-out of a
11 “SafeStart” program to increase focus on mental errors and how to prevent them
12 and increasing employee ownership of the safety program. From 2008 to 2009
13 AmerenUE’s lost workday away cases decreased from 22 workdays lost due to
14 occupational injury to 15 workdays lost due to occupational injury. AmerenUE’s
15 commitment to safety has resulted in continuous improvement in this metric over
16 time. This is a practice that benefits the customer by reducing operating costs,
17 creating a safe environment for employees, customers and the general public, and
18 creating a work environment that attracts the best employees.

19 **Operational Performance** – Each year, AmerenUE ties several KPIs to
20 operational performance. For example, Operations and Maintenance (O&M)
21 Budget Compliance, Capital Budget Compliance, INPO Performance Index (a
22 Nuclear-specific metric focused on plant performance), and identifying and
23 implementing process efficiency projects that will positively impact the

AmerenUE organization are all Key Performance Indicators. The budget-related metrics ensure that AmerenUE is using its resources wisely and working to control costs. Ultimately, lower cost operations lead to lower rates. Other process and performance improvement metrics ensure that AmerenUE is enhancing its ability to operate as effectively as possible, thus reducing rates over time when compared to less productive/efficient operations. Ultimately AmerenUE's Key Performance Indicators, reinforced by incentive payouts, have resulted in significant attention and improvement to important customer issues. This focus has resulted in both tangible benefits (e.g., increased system reliability, increased performance, increased customer satisfaction, reduced lost workday away cases, etc.) and intangible benefits (employee alignment with key goals, prioritization of goals, etc.) – all of which help the Company deliver safe and reliable service to our customers at very low rates. The KPIs are adjusted each year, but the Company has a long history of including important customer metrics such as reliability, customer service, safety, and operational efficiency in the incentive plans every year. We fully expect this to continue into the future.

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

A. Each of AmerenUE's short-term incentive plans is described below:

- The **EIP-O** is designed to ensure that the AmerenUE officers are focused, as a senior leadership team for AmerenUE, on the overall success of the business. As such, the EIP-O is funded 100% based on earnings per share results. The funded award ("core award") may be adjusted up or down based on each officer's personal performance

1 and achievement of scorecard KPIs such as safety, reliability, and/or customer
2 satisfaction metrics. While we continue to believe that the financial success of our
3 business is critical to our ability to effectively serve our customers, and that
4 incentives based on earnings per share encourage cost control that benefits customers
5 in the long run by keeping rates low, we acknowledge the Commission's prior
6 decisions that incentive compensation plans funded solely on the basis of earnings per
7 share will be disallowed. Thus, we are not requesting recovery of costs associated
8 with the EIP-O.

- 9 ■ The **EIP-M** differs from the EIP-O in that 75% of the award is based on operational
10 performance as measured by KPIs (such as those described earlier in my rebuttal
11 testimony). Twenty-five percent of a Manager/Director's award is based on
12 AmerenUE's contribution to the Company's earnings. Similar to the EIP-O, each
13 plan participant's core award (which is determined formulaically) may be adjusted up
14 or down based on demonstrated leadership and contributions to goals which benefit
15 our customers.
- 16 ■ The **AMIP** is funded 100% based on achievement of pre-defined KPIs. These KPIs
17 focus plan participants on key operational metrics such as safety, reliability,
18 generation availability, and customer satisfaction. To ensure that each employee has
19 a "line of sight" to the metrics that impact his or her compensation, the metrics vary
20 by major workgroup or function. This helps to ensure that employees are rewarded
21 for achieving goals that they are most able to influence or control. Awards funded
22 based on KPIs may be adjusted up or down to reflect individual contributions to
23 group KPIs, or achievement of individual performance objectives.

- 1 ▪ The AMTC is an extension of the AMIP and was designed in response to significant
2 competitive pressures for certain critical marketing and trading related skill sets. A
3 small number (currently less than a dozen) of management professionals and
4 supervisors are included in this plan based on their positions within AmerenUE. The
5 plan includes two components. The first component is the base plan, which is
6 essentially the same as the AMIP. The second component is called the supplemental
7 component – and provides an additional group or position-specific metric for
8 participants to achieve. Awards earned under the supplement are converted to stock
9 units (which mimic common stock) and are held for just under 2 years (to promote
10 employee retention) before being paid out in cash.
- 11 ▪ The AIP is funded and paid 100% based on incentive KPI performance. The KPIs
12 are designed to focus union employees on important operational goals that they can
13 directly influence or control.

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

16 A. Yes. AmerenUE's incentive compensation plans are designed in a manner that is
17 prudent and consistent with market practice. We focus on aligning both base and incentive
18 compensation at the median of the market – and define the market as similarly sized companies
19 within our industry. Additionally, our incentive plans require operational performance
20 improvements to be achieved for employees to be rewarded, thus ensuring that customers will
21 benefit if KPIs are achieved and incentive awards are paid. To continue to effectively manage
22 our compensation programs and our workforce in the short and long-term, we need regulatory
23 consistency regarding our incentive plans.

EXECUTIVE COMPENSATION

Q. Why should the base salary of AmerenUE's top 5 executives be included in rates?

A. The compensation programs of AmerenUE's executives are prudent and aligned with market. We have not requested recovery of short-term incentive compensation for any of our officers out of recognition that executive incentives can be a volatile issue and the fact that the officers' plan continues to be funded solely on an earnings metric. A key role of AmerenUE's executive leadership is to set AmerenUE's strategy and create value for all of its stakeholders – especially our customers. No one has argued that these roles are not necessary or important. The salaries paid to AmerenUE executives are market competitive, appropriate and a normal cost of doing business. Witness Meyer's recommendation that executive compensation be excluded from this case was based on his review of the current filing before the Illinois Commerce Commission in which the Ameren Illinois Utilities agreed not to seek recovery of the five highest-paid executive officers. Mr. Meyer has not claimed that we do not need executives to run our company or that the compensation they are paid is not market based. He also fails to provide his rationale regarding why we would exclude the compensation of AmerenUE's top five executives – except for the fact that the Ameren Illinois Utilities made this concession. Ultimately, the agreement in Illinois has nothing to do with this case and there may have been other considerations given for excluding executive salaries in that case.

LONG-TERM INCENTIVE PLANS

Q. Mr. Boateng 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 long-term 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 is critical for leadership to constantly balance 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. In August of 2008, Hewitt & Associates 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 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 (thus promoting prudent decision making which ultimately benefits our customers). The restricted stock program

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

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

17 **A.** Yes, it does.

In the Matter of Union Electric Company d/b/a) Case No. ER-2010-0036
AmerenUE's Tariffs to Increase its Annual) Tracking No. YE-2010-0054
Revenues for Electric Service.) Tracking No. YE-2010-0055

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

1. My name is Krista G. Bauer. I work in the City of St. Louis, Missouri, and I am employed by Ameren Services Company as Manager, Compensation and Talent Acquisition.

3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct.

Subscribed and sworn to before me this 11 day of February, 2010.


Notary Public

Janet R. Kretsinger - Notary Public
Notary Seal, State of
Missouri - St. Louis County
Commission #09764164
My Commission Expires 9/1/2013