

**Jeremy Pelczer@AWW**      To: \_AWW-Org - Enterprise Notes Users\_121202WX@awx  
Sent by: Gail                      cc:  
**McDevitt@AWW**                      Subject: Special Announcement From Jeremy Pelczer - President American  
Water  
11/19/2003 12:51 PM

Dear Colleague,

In the recent 'Shaping our Future' communication, I promised that you would receive the **Vision, Strategy** and Executive Management Team **Structure** this week. After a period of excellent team-work involving people from across the business at a variety of different levels, I am pleased to announce the outcome of these three important initiatives.

The new **Vision** for American Water is: "To be your trusted water resource company, dedicated to delivering innovative solutions." This simple but powerful message will enable us to move forward together in 2004 and beyond. Each word has been carefully chosen after extensive consultation across the business. I believe that this is a Vision for American Water that we can all be proud of and commit ourselves to achieving. I hope you agree that it sums up the relationship we want to have with our key customers and stakeholders.

Following a six-month project to develop a winning **Strategy** that has been thoroughly tested and reviewed by leaders across the business, I can now share the key strategic goals and drivers for the business. We will:

Focus on being a customer responsive company, presenting a single point of contact to our customers, and offer a range of solutions to meet their water and wastewater needs.

Build on our success and core strengths in the drinking water market while expanding our footprint into the wastewater market; capitalizing on the wastewater experience of RWE Thames Water.

Expand both our presence and our range of services in the growing states of the South and West. Continue to serve our customers and grow in our traditionally strong regional markets.

Develop new offers such as desalination; leveraging the expertise and experience of other RWE Thames Water Group companies, notably Pridesa with whom we are building a strong relationship.

Target a long-term "partnership" approach to our most significant customers, the municipalities; it is our relationship with these customers, which will give us our sustainable competitive advantage.

I would welcome your reaction to both the Vision and Strategy and you are invited to let me have your views or questions via email to [shapingourfuture@amwater.com](mailto:shapingourfuture@amwater.com).

I am pleased to confirm that we have completed the Organization Review and finalized the **Structure** for American Water.

We have also completed the selection process for the new Executive Management Team in

the new structure. We were supported by an external consulting firm (PDI), which conducted objective assessments using the highest leadership standards and benchmarks for thirty candidates from our existing executive team. From the thirty that went through the assessment centers, ten individuals have been selected for the new roles in the structure. Some of the key features and appointments in the new structure are as follows:

The existing seven regulated Regions, and the five non-regulated regions in AWS have been combined to produce four new streamlined business units. The new Regions have been agreed upon after careful consideration of the following factors: customer numbers; employee numbers; growth potential; "State-culture"; location of offices/assets; spans of control; opportunities for efficiencies; stakeholder management issues; and employee capabilities.

The new Business Units will be led by Regional Managing Directors. The new Regional Managing Directors report to the President of American Water.

The four Regions and their respective Managing Directors are as follows: Western Region, Paul Townsley; Central Region, Terry Gloriod; southeastern, Bob Ross; Northeastern, Andrew Chapman. The current State/Regional Presidents [John Eckart, Eric Thornburg, Chris Jarrett, Ray Jones, Roy Mundy, Dave Schultz] will continue in their existing roles to ensure continuity with their customers, employees, and regulators for the immediate future. Our business in Chile will continue to be led by Eduardo Verdugo.

The Western, Central, and southeastern Regional MD's will be developing their new management structures and will begin the selection process for their direct reports within the next two weeks. The Northeastern Region will continue the organization changes and selection process currently underway as New Jersey-American and Elizabethtown Water are integrated.

A Business Change team that has accountability for shaping and driving through our Business Change initiatives that make up the "building blocks" for change (Culture, Strategy/Organization, Performance, Growing the Business) in a coordinated way has been established and appointments made. This team will be jointly led by Nick Rowe and Opiuyo Oforiokuma.

Strengthened functional roles under the Chief Operating Officer, Jim McGivern, have been created and the following appointments made: Operations and Investment Performance, John Young; Regulatory and Contract Performance, Mick Carmedy; Business Development, Bill Malarkey; and Customer and Shared Business Services, Bob Collington. These functional roles will be responsible for defining common standards and ways of working and ensuring that we are consistently providing the highest levels of service to our customers. Jim McGivern has accountability for business performance and growth across the whole business and for these activities, the Regional MD's will report to him, as well as the President. Our Products & Services business (including AWS) will continue to be led by Walter Lynch, and will report to Jim McGivern. The O&M and military contracts when operational will transition into the new Regions during 2004.

The new Functional Leads will also be undertaking a similar exercise in the next few days to define their structures and select senior managers for their teams.

Dietrich Firnhaber assumes a new RWE/Thames Water Division-wide role leading Legal Services, as well as providing oversight and support to the American's Audit function; and accountability for growing our Property business. Dietrich will also chair our Strategic Review Committee.

Dan Kelleher assumes responsibility for External Affairs, which is the combination of external and internal communication, government relations, representing American Water in industry-wide bodies, community relations, and corporate social responsibility (CSR).

Our Chairman, Bill Alexander, announced on Monday that John Bigelow has been appointed to the new lead Finance role for the Americas, succeeding Ellen Wolf who will leave the Company at the end of November.

Matt Huckin continues in his role as head of the HR function for the Americas.

The structure charts with confirmed appointments and brief bullet point outlines of the roles are included in attachments 1 and 2. Attachment 3 shows a map of the new Regional structure for American Water.

The business model and organization structure has been designed to drive: the creation of the customer service and performance culture; accelerated business growth; the development of common processes and raised standards; continued operational efficiency, integrity and corporate governance. It will also lead to a more integrated business within the new Regions and the achievement of our business targets in the business plan. We will measure our progress in achieving these goals in the coming months.

Although there remains much work to be done as the new Executive Management Team define their structures, the key roles that report to them, and select their teams, I am confident that we are on track to achieve our goals in 2004. I remain committed to ensuring that the process is open, objective, fair, and quickly delivered to reduce any anxiety that such business change typically produces.

If you have any questions surrounding this material, please ensure that you raise them with your Line Manager, your Communication Manager, or your Human Resources representative. Senior managers across the business are being provided with a communication pack that provides further details and information that will enable them to answer any initial questions that you have. This material will be cascaded to you in the coming days and you will have an opportunity to raise your concerns or questions.

Thank you very much for your ongoing commitment and support.

Yours Sincerely,

Jeremy Pelczer  
President, American Water



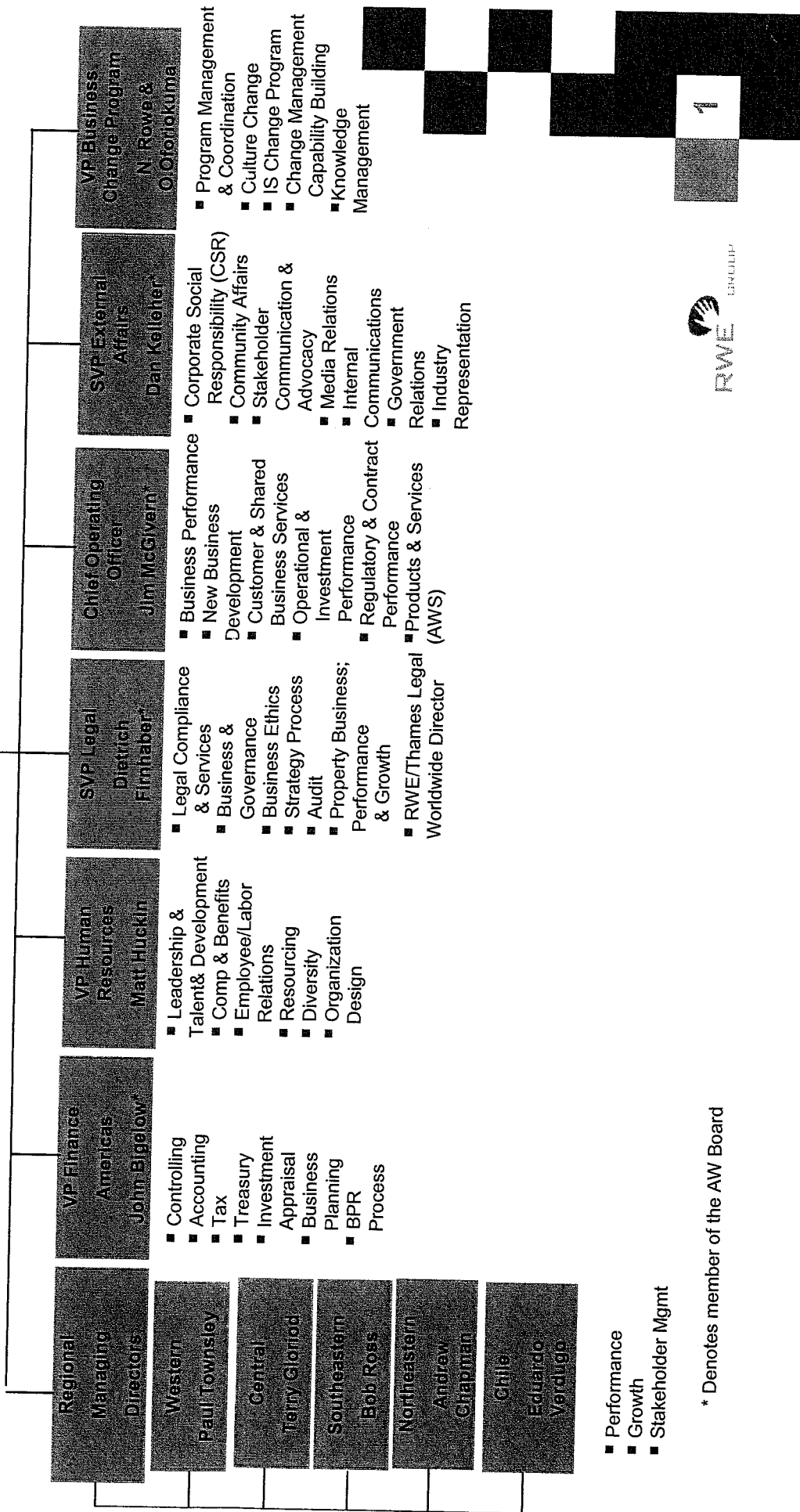
Announcement-Attachments1-2-3-11

# Attachment 1

## The New Structure: The Executive Management Team Direct Reports to the President & their key Accountabilities



**President  
Jeremy Pelczer\***



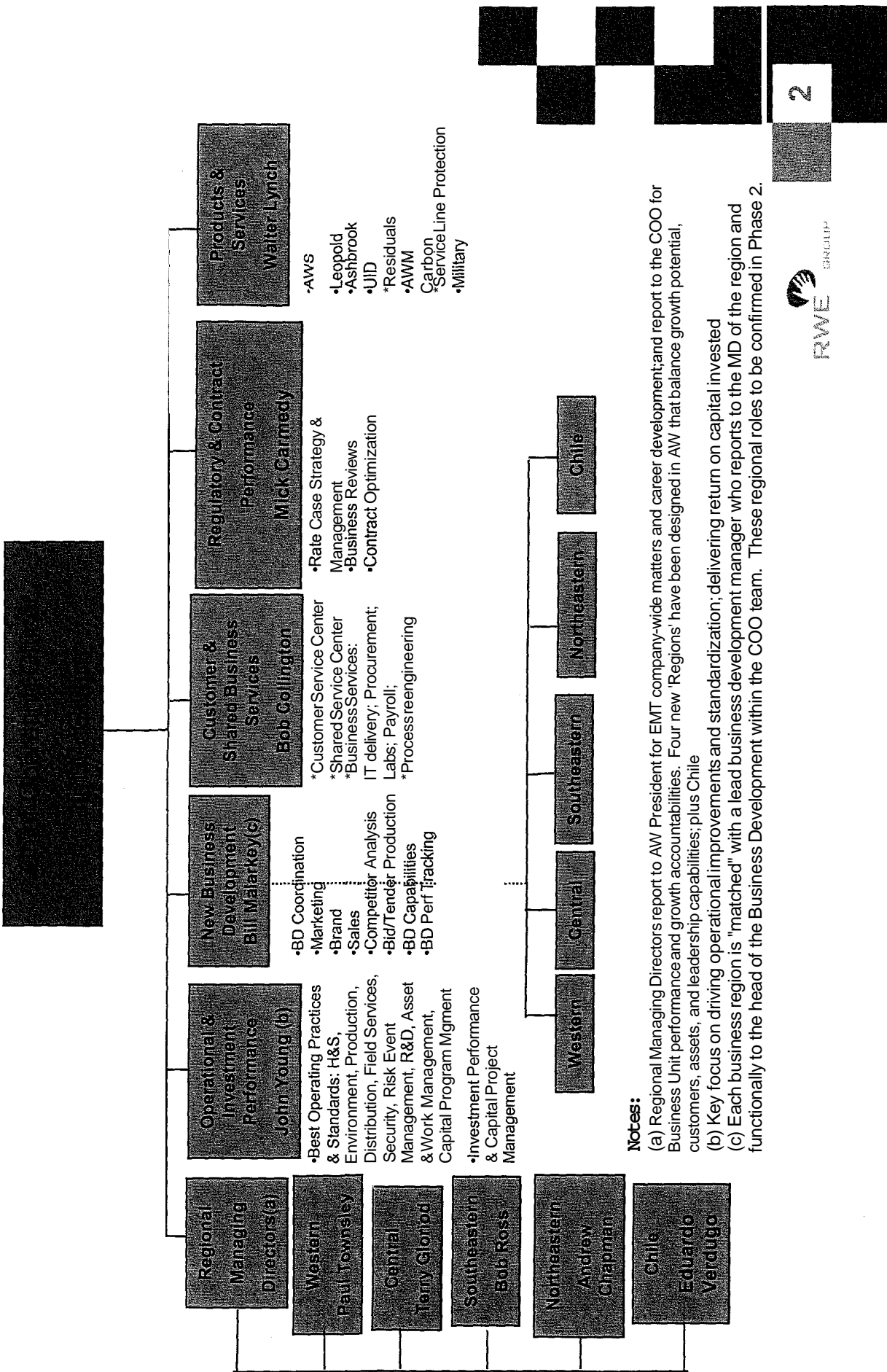
- Performance
- Growth
- Stakeholder Mgmt

\* Denotes member of the AW Board



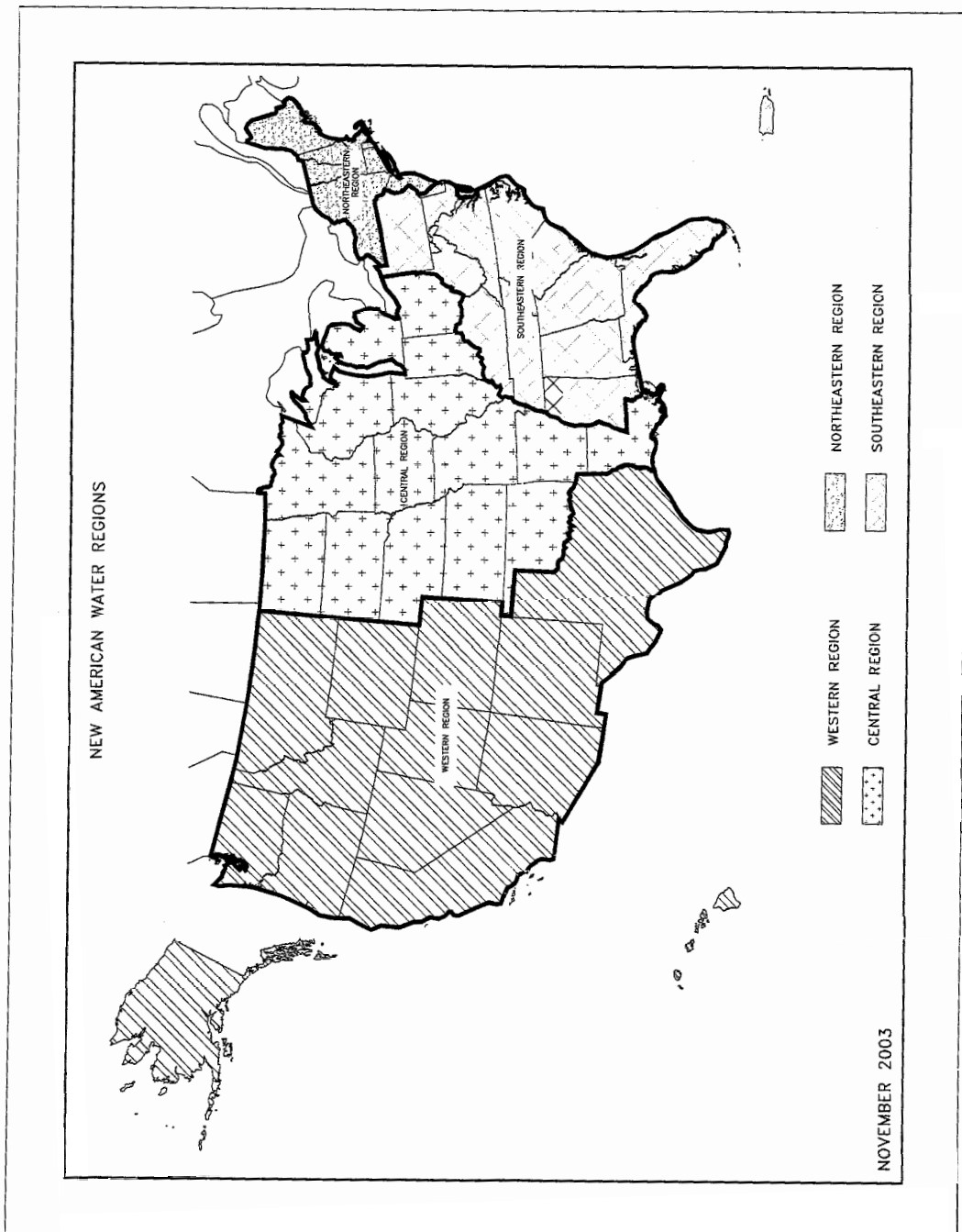


# Attachment 2 The New Structure: Chief Operating Officer Team and Key Accountabilities:





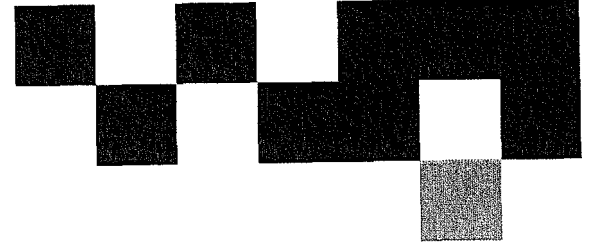
Attachment 3





# American Water Shaping Our Future

Communication Briefing 2  
November 19, 2003



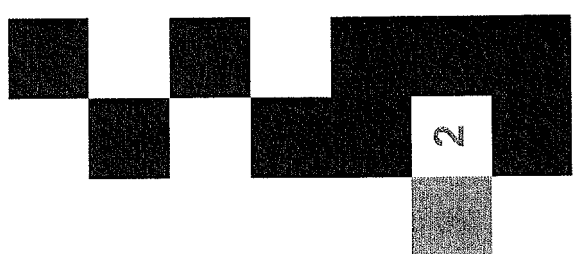


## Communication Objectives

This is the second communication briefing in a series which is designed to keep everyone in American Water informed of what we are doing to meet the challenges facing the business

The objectives of this pack are to:

1. Communicate the Vision for American Water
2. Communicate a summary of the Strategy for American Water
3. Confirm and explain the organization design and Structure of American Water
4. Describe the selection process used to appoint the top team
5. Confirm the new Executive Management Team
6. Provide you with details of the key next steps
7. Give you an opportunity to have your initial questions answered







# Contents

■ Context
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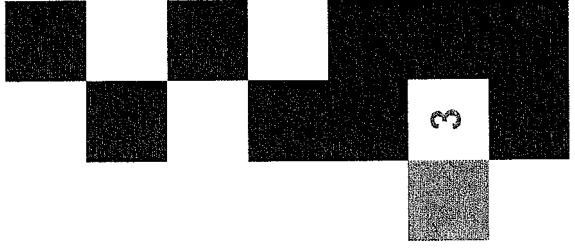
■ Vision

■ Strategy

■ The new organization and appointments

■ Next Steps

■ Discussion





## Context

In the first communication briefing ("Shaping our Future"), we discussed:

- The business challenges we are facing
  - the compelling reasons for change
    - other economic, environmental and political challenges
- The building blocks of our Shaping our Future business change program
- The objectives and principles we have set ourselves for the organization
- The way we want to work in American Water
- Next steps and key dates

■ **Our first step to meet these challenges has been to confirm our vision, strategy and structure and complete a rigorous and fair recruitment process for our top jobs**





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- Context

• Vision
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- Strategy

- The new organization and appointments

- Next Steps

- Discussion





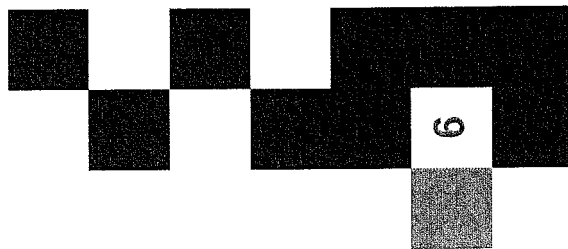
## American Water Vision

- A draft Vision Statement was created at the "Shaping our Future" conference on October 1<sup>st</sup> and 2<sup>nd</sup>

This draft has been tested, amended, and validated in consultative meetings involving more than 300 people across the business

The Vision is a statement of our realistic ambition as a Company and provides a picture of what we aim to be. It is useful internally to align our activities and reinforce our values

- It is important externally because it confirms our vision to serve, innovate, and respect all of our stakeholders

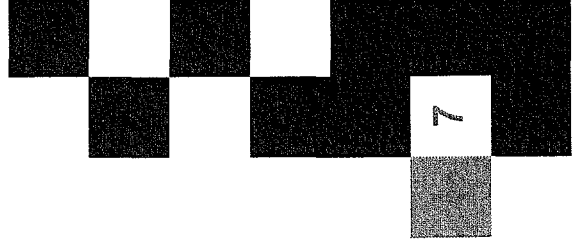




## American Water: Vision

**“To be your trusted water resource  
company, dedicated to delivering  
innovative solutions.”**

November 17, 2003





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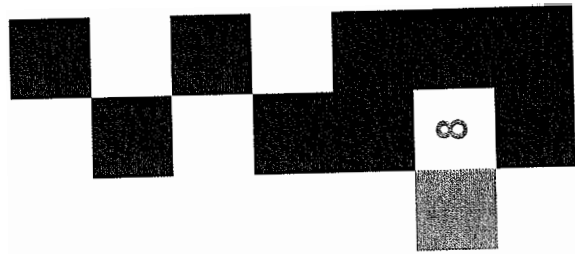
- The new organization and appointments

- Next Steps

- Discussion



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## American Water Strategic Objectives

We will:

- Become the premier choice for our customers
- Provide innovative solutions to meet our customers' needs
- Develop a strong wastewater business
- Balance our portfolio (products and services and regional presence)

In order to:

- Satisfy our customers
- Grow the customer base
- Meet our financial targets

The detailed strategy for AW has been completed and a separate communication pack will be issued next week.





## Our Strategic Initiatives for Growth

- Continue consolidation of the water market with emphasis on “tuck-ins”
- Grow the wastewater business in our existing water “footprint”
- Establish positions in new, proven, technologies to resolve water shortages arising from population growth, e.g desalination
- Strengthen and deploy our business development resources to faster growing areas
- Develop municipal partnering concepts to leverage opportunities due to the market’s growing infrastructure needs and environmental regulations







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# Shaping Our Future – The New Organization



■ We have remained focused on the principles described in our first communication briefing when designing the new organization and we aim to:

1. Deliver on promises to our customers and communities
2. Change the culture at the Center and in the Regions
3. Build new capabilities – wastewater, desalination, contract management (e.g. O&M), supervisory/line management, leadership of change and business development
4. Ensure we have the “right people in the right place”
5. Promote and facilitate diversity
6. Strengthen our functional organization: break down “silos”; implement common systems and processes; raise standards; eliminate waste; create efficient operations
7. Structure the business to accelerate growth
8. Protect and enhance all our stakeholder relationships at the local level
9. Maintain operational integrity; health, safety, security, environment
10. Deliver business targets and business plan/budget commitments



## The New Organization (1)

- The Role of the ‘Center’
  - To manage and facilitate the strategic and policy development processes
  - Decide and communicate performance standards, vision and values
  - Develop capital investment strategy; lead major transactions, e.g. M&A
  - Liaison with the RWE/Thames Water Center(s) and functions
  - Risk management and mitigation; governance; reporting and compliance
  - Challenge and Support business units to deliver results
  - Build organizational capabilities (people, systems, processes)
  - Build trust and transparency and turn our values into action

**“To serve and enable the Regions”**



## The New Organization (2)

- The Role of a Function at the business center (e.g.: HR, Finance, etc.)
  - To manage and facilitate policy development and standards
  - Build functional capabilities
  - Facilitate knowledge transfer and organizational learning
  - Measure and track performance delivery
  - Promote functional and cross functional team working
  - Act as a “resource broker” for the function
  - Define the “freedom to act” within governing frameworks
  - Drive organizational efficiencies
  - Challenge and Support delivery of results
- The functional leads in the Region will work in close alignment with the center functions

**“To Serve and Enable the Regions”**



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## The New Organization (3)

- The Role of a Regional business:
  - Accountable for Profit and Loss and to build on the foundations laid in the Business Plan
  - Deliver and optimize performance in regulated and non-regulated operations
  - Deliver growth targets
  - Build relationships that add value – Customers, unions, political, regulatory, community
  - Develop and deploy human resources; create a productive working environment; build employee involvement
  - Invest capital in line with strategy
  - Build a performance and a customer focused culture, and support our people at the ‘frontline’ to deliver excellent service
  - Build trust, transparency and turn our values into action

**“To Serve Our Customers”**



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# The New Regions



- Existing seven regulated and five non-regulated regions will be combined into four streamlined and fully integrated regions

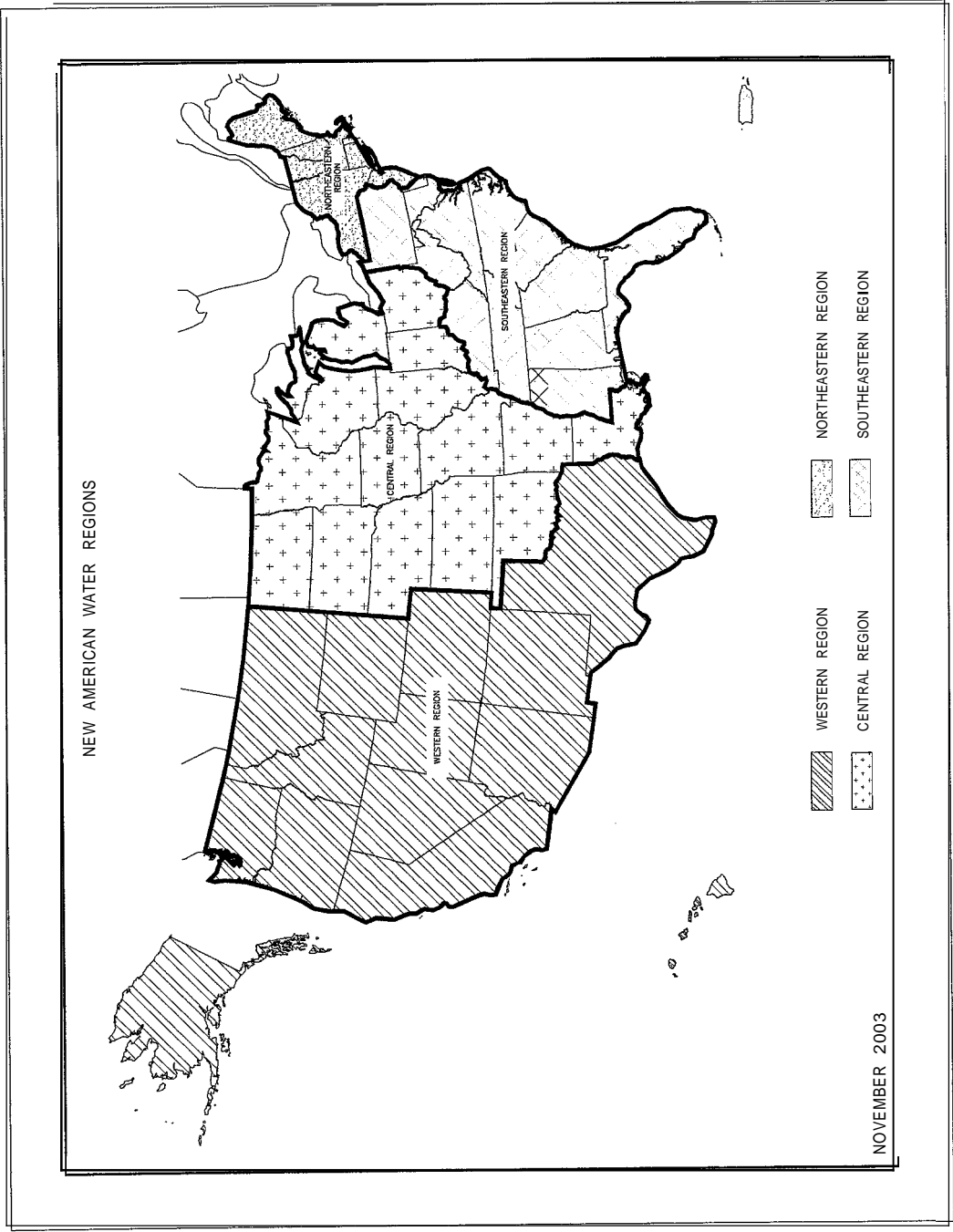
## Decision criteria for creating new regions:

- Customer numbers
- Employee numbers
- Growth potential
- State by state "culture"
- Location of offices/assets
- Span of control (ratio of managers to employees)
- Opportunities for efficiencies and performance improvement
- Stakeholder management issues
- Employee and organizational capabilities

- These will be located in San Diego, St. Louis, Hershey and Lawrenceville for the foreseeable future



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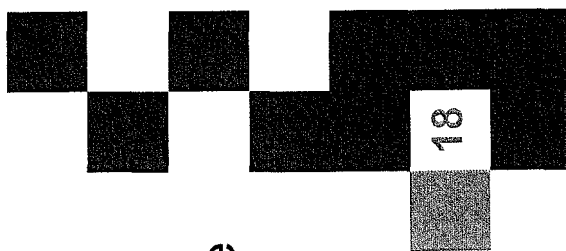


## The Selection Process

- The selection process has been developed to ensure:
  - Selection decisions for the leadership roles in the new structure are based on objective data
  - Individuals have an insight into their strengths and development needs
  - Selection decisions reflect the strengths needed to implement the new organization and strategy

It is important that the selection process is:

- Fair
  - Objective
  - Timely
  - Open and transparent
  - Conducted professionally
- The process has been designed to address specific issues raised in the Employee Opinion Survey about past appointments not always being made on the basis of merit







## Phase 1 Selection Process – The Executive Team

- To ensure objectivity, we have partnered with an external consulting firm (PDI) that specializes in leadership assessment and development
- PDI have been briefed personally by Jeremy Pelczer on the new structure, desired culture and new positions
- The process consisted of a one and a half day leadership assessment program at PDI’s offices, and comprised:
  - A structured interview
  - A series of business simulations
  - Standardized tests of cognitive thinking skills
  - A personality questionnaire
  - Initial feedback on individual performance
- The results from the selection process were used by Jeremy Pelczer and Jim McGivern, supported by HR and PDI, to make our executive appointments

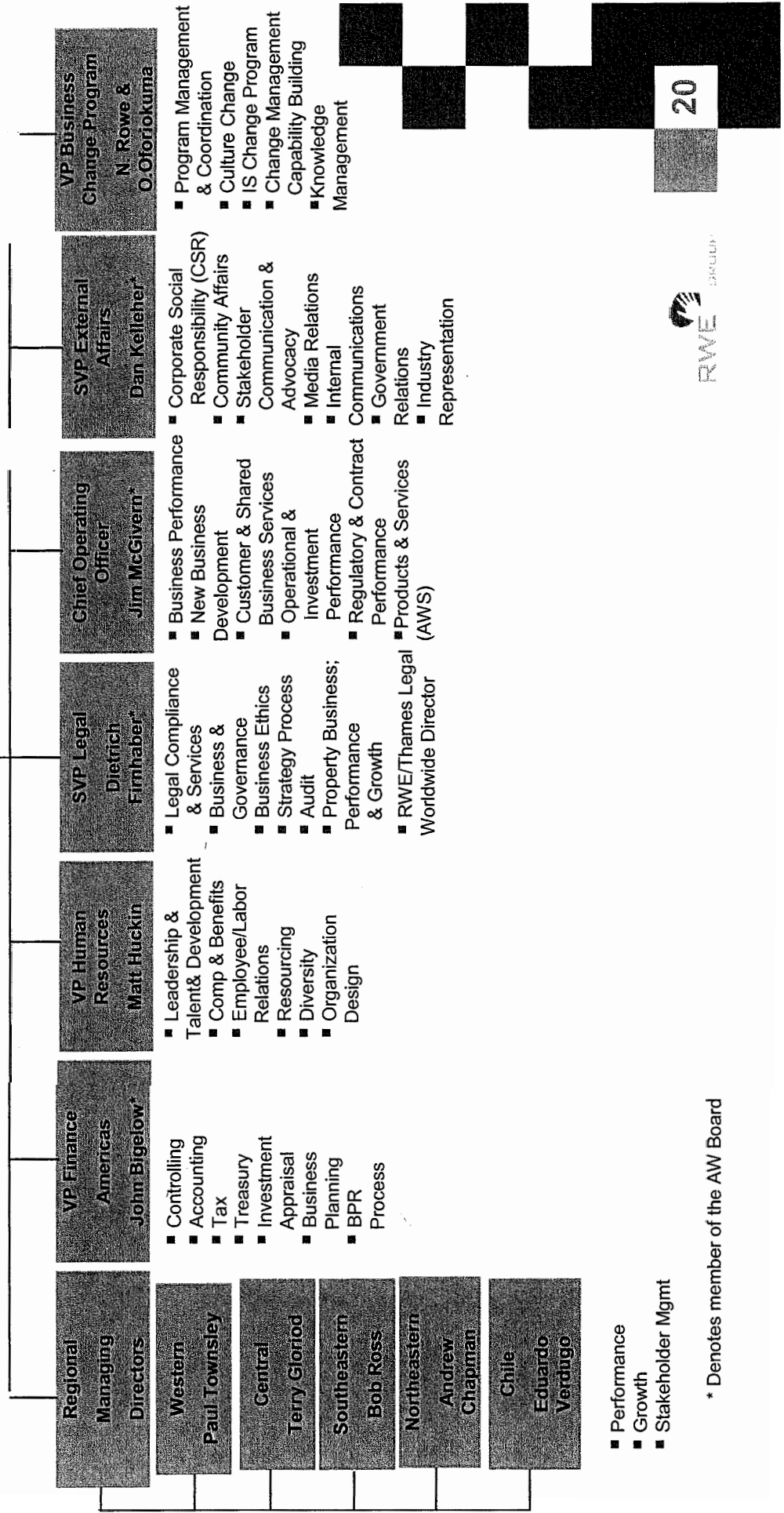


# The New Structure: The Executive Management Team Direct Reports to the President & their key Accountabilities



American Water

**President  
Jeremy Pelczer\***

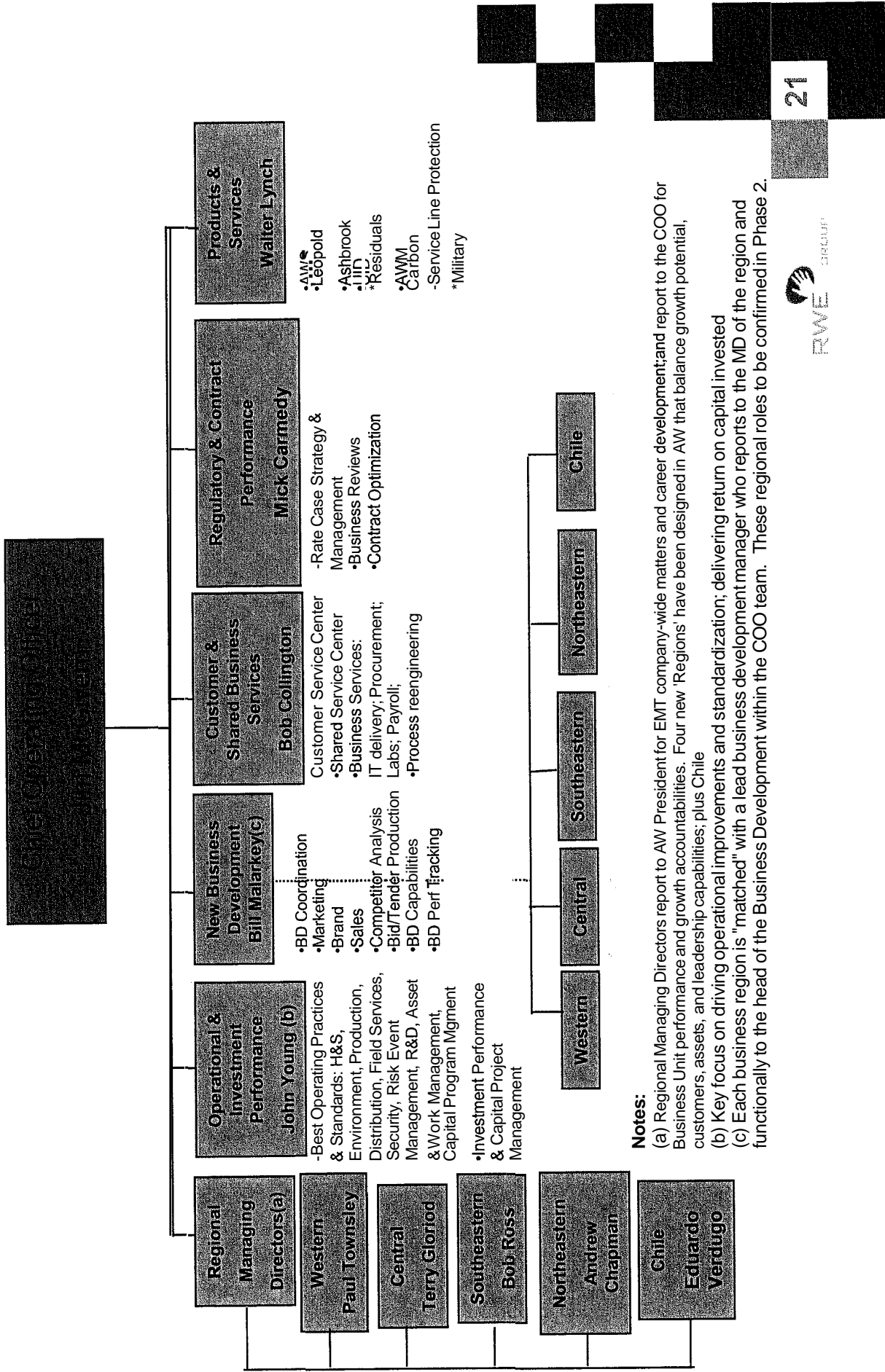


- Performance
- Growth
- Stakeholder Mgmt

\* Denotes member of the AW Board



# The New Structure: Chief Operating Officer Team and Key Accountabilities:

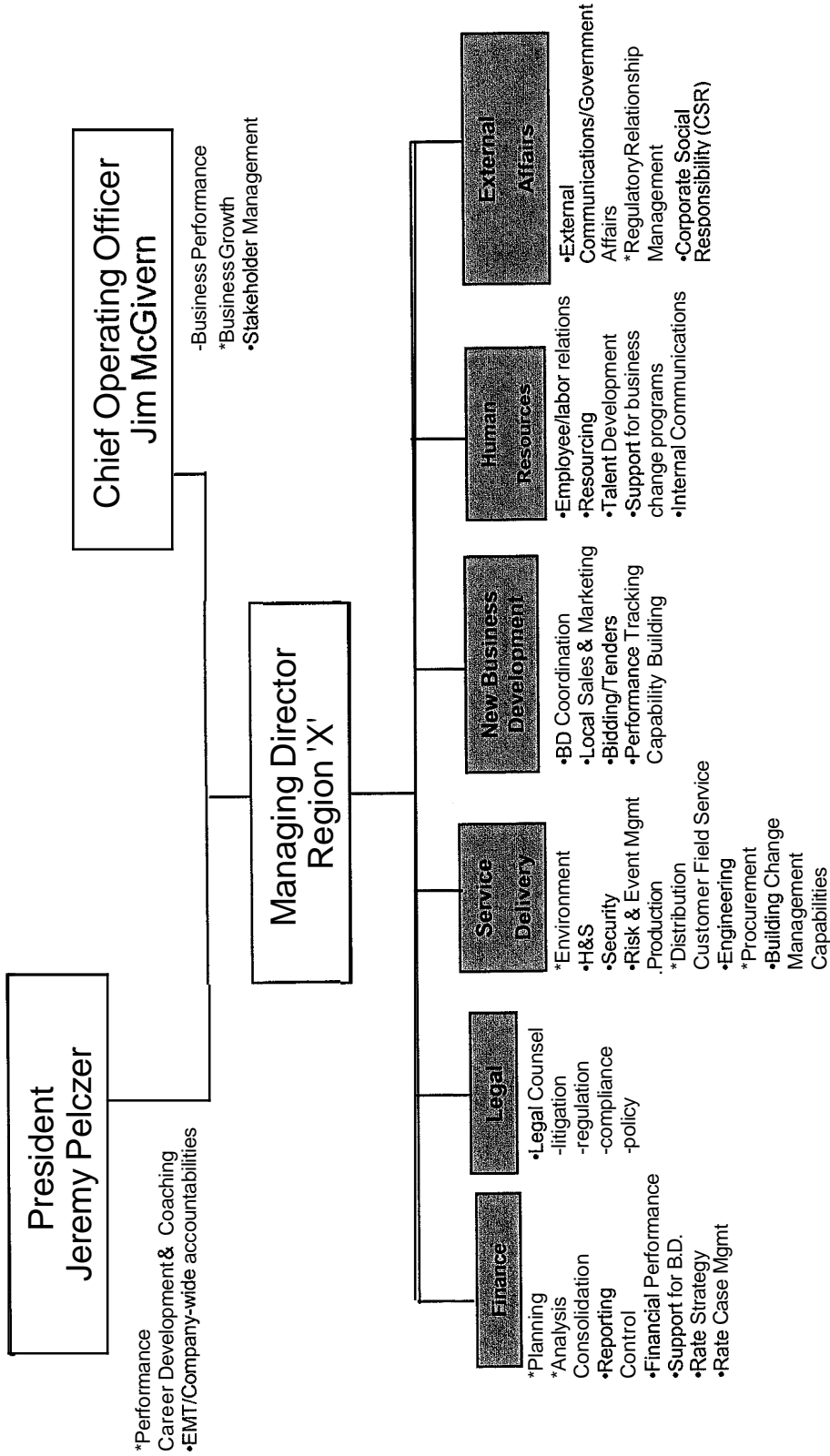


**Notes:**

- (a) Regional Managing Directors report to AW President for EMT company-wide matters and career development; and report to the COO for Business Unit performance and growth accountabilities. Four new 'Regions' have been designed in AW that balance growth potential, customers, assets, and leadership capabilities; plus Chile
- (b) Key focus on driving operational improvements and standardization; delivering return on capital invested
- (c) Each business region is "matched" with a lead business development manager who reports to the MD of the region and functionally to the head of the Business Development within the COO team. These regional roles to be confirmed in Phase 2.



# “Strawman” Regional Structure



Roles to be filled in Phase 2



# Organization & Selection – Phase 2 Process



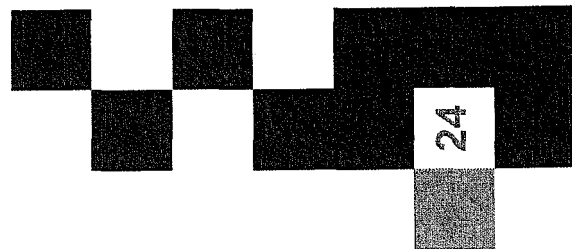
- Phase 2 covers the positions which report to the Executive Management Team and the COO’s direct reports
- During the week of 17<sup>th</sup> November the new Executive Management Team will be finalizing the organization design for their areas of the business and will then confirm which positions will be going through the process
- Positions at this level which are not materially changed will not be included in this phase and their incumbents will not be asked to apply for their own jobs
- The Phase 2 roles will be posted in special Internal Recruitment Bulletins to allow employees to apply for the jobs. These bulletins will be posted from November 24<sup>th</sup> and the closing date for applications will be December 1<sup>st</sup>. A paper based ‘short listing’ will then occur and candidates will proceed to the PDI selection assessments



## Organization & Selection – Phase 2 Process



- External consultants, PDI will be used in Phase 2 of the selection process
- The process will be similar to Phase 1, and individuals will participate in 2-hour feedback sessions with PDI
- The majority of assessments will occur between November 24<sup>th</sup> and December 12, 2003
- The data from Phase 2 assessments will be reviewed by the appropriate "hiring manager" supported by HR and PDI
- Decisions on the majority of Phase 2 appointments will be communicated by the end of the year





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## Next Steps



- Individuals who currently report to Regional Presidents and Heads of Functions in Voorhees will be advised during the next two weeks whether:
  - Their role is not materially changing and they will continue in their role, or
  - Their role is considered part of Phase 2 and that they will participate in the selection process. Dates, locations and relevant materials will be provided. For incumbents whose jobs have materially changed the selection events will commence from the 24<sup>th</sup> November onwards
- From November 24<sup>th</sup> – recruitment bulletin posted
- Close date applications - December 1st
- November 24<sup>th</sup> to December 12<sup>th</sup> – Phase 2 assessments occur
- By end of year – formal communication of appointments





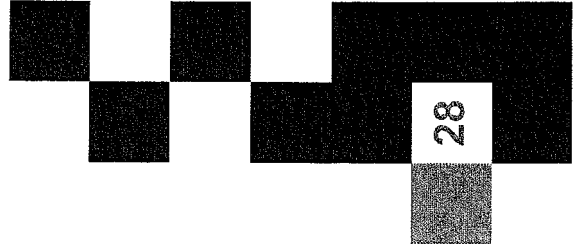
## **Next Steps - continue**

- This timeline is extremely tight so we would appreciate everyone's understanding and flexibility to help us meet these deadlines
- Phase 1 & 2 positions will be appointed by the end of 2003
- We are committed to finalizing the design of the Phase 3 and beyond management structures as quickly as possible in 2004 and to completing the appointment of all management roles by the end of June 2004
- We remain committed to providing ongoing communication to employees on progress with the appointments and the other AW change management initiatives
- These are challenging times and everyone's ongoing commitment and dedication to serving our customers is appreciated





# Questions and Answers...



## Questions & Answers

### 1. Q. Why are we making these changes?

A. All of our people are committed and take pride in our business, however, there are a number of compelling reasons for change: the desire to better service the needs of our customers; the need for better quality leadership; the need to be more efficient in order to minimize increases in rates; the desire to ensure that we work smarter and together in teams; to ensure that we provide better feedback and professional development for our employees; and to facilitate better communication between managers and employees. There are also a number of external factors that are creating pressure on the business: the current economic downturn; weather impacts over the last two years; increased operating costs (through increases in insurance, healthcare, security, etc.); and condemnations. The combination of these challenges is significant for the business, but it is within our capabilities to achieve our goals and overcome these challenges.

### 2. Q. What impact will these changes have to our customers and the communities we serve?

A. We remain absolutely committed to the communities and customers that we currently serve and by being highly efficient and effective, we feel confident that we will meet the needs of our customers going forward and attract new customers. The organizational changes are intended to ensure that we have the best operating practices consistently applied across the Company to enable us to deliver the highest quality service. Changes in personnel at the top of the business will be carefully managed with our external stakeholders to reassure them that there is continuity of service and that the integrity of our operations is enhanced by these changes. We are confident that the new organization and the culture that we are creating will enhance our reputation with our customers and in the community.

### 3. Q. What do our regulators think of these changes?

A. The senior managers in our respective States are communicating the changes to our regulators and explaining how the new business model works and what benefits will arise across the business over time. Our regulators are responsible for ensuring that our customers receive good quality service at the right price, and the changes that we are making are completely aligned with that objective.

### 4. Q. How does RWE feel about the changes being made at American Water?

A. The detail of the new Vision, Strategy and Organization has been shared in the last few days with RWE, including the CEO of RWE, Harry Roels. Changes have been given complete support by RWE, and they are confident about our ability to deliver the planned results.

### 5. Q. How were the decisions made about the new regional structure?

A. The new regions were put together after careful consideration of a number of factors: customer numbers, employee numbers, growth potential, State-by-State culture, location of offices and assets, spans of control (a ratio of managers to direct reports), opportunities for efficiencies and performance improvement, stakeholder management

issues, and employee and organizational capabilities. Following the scrutiny of all of these factors, the existing states and regions were "bundled" together into the new larger four integrated regions. There is now a better balance between the three large mature regions with the Western Region being a major source of potential growth. The regional structure is more streamlined and easier to manage than the old structure, which had seven regulated regions and five unregulated regions.

**6. Q. What happens to the previous Regional Presidents now?**

A. Each of the previous Regional Presidents continues to have a valued role to play in ensuring continuity of service, effective stakeholder management, and orderly transition into the new organization structure. As the new Regional Managing Director's commence their organization design and the selection of their new teams, the previous Presidents will be part of that design process and will be important players in ensuring business continuity.

**7. Q. What do these changes mean for our Chile business?**

A. The Chile business under Eduardo Verdugo as Managing Director, and Greg Holland as Chief Operating Officer, will continue to report directly into the AW President and will also report to the COO on performance and growth matters. The changes and initiatives that are occurring across American Water are unlikely to have a significant impact on our Chile business as Chile has already undertaken its own business integration and reorganization and has embarked upon a culture change program.

**8. Q. What do these changes mean for the Products and Services companies (AWS, etc.)**

A. 2004 is a big year for the Products and Services companies, both in terms of meeting their challenging business plan and also in terms of the need for them to accelerate our business growth. Walter Lynch will continue to lead the Products and Services management team and while delivering his performance and growth goals for 2004, will also be heavily involved with the new business change team in the transition of the contract O&M business and military contracts which have commenced operations into the new regional structure. This transition needs to be managed sensitively and carefully, and will take many months to be completed. Our other non-regulated business lines will continue to be separately managed on a national basis by Walter and his team.

**9. Q. What does this mean for our New Jersey business?**

A. New Jersey-American and Elizabethtown Water are currently going through a separate integration process. It will continue to manage its reorganization and selection process as planned and communicated to employees.

**10. Q. What is the purpose of each of the new roles in the organization?**

A. A brief description of each new role is provided below:

Managing Director:

- To establish, meet and/or exceed business plan commitments for the regulated and non-regulated business in the assigned region and ensure company wide business strategy for performance and growth is achieved.
- To oversee the complete range of stakeholders in the assigned region in order to promote achievement of business goals while ensuring operational integrity (environment, H&S, etc.) and developing employees.
- To deliver high quality customer service.

Business Change Program:

- Drive the effective delivery of AW's business plan performance through the strategic coordination and program management of the multiple change initiatives across the business
- Ensure alignment of key change projects with the vision, strategy, business goals and business plan

New Business Development:

- To build and to enhance the capability of the Americas Region business development function providing functional leadership, strategy, vision and direction to ensure the acceleration of profitable business growth.

Customer & Shared Business Services:

- Drive service improvements and process efficiencies within centralized services: Customer, Shared Services, Laboratories, IT Services, and Procurement.

Operations & Investment Performance:

- To define and implement 'best operating practices' throughout the businesses and drive the delivery of cost effective capital investment programs

Regulatory & Contract Performance:

- To define and coordinate implementation of rate case strategy.
- To optimize contract performance and steward commercial elements of new business.

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**11. Q. Why are there two Business Change Managers and what are they doing?**

A. Nick Rowe and Opiuyo Oforiokuma have been appointed to the position as joint Business Change Managers because they have complementary skills and experience. Nick Rowe has experience of managing operations within our regulated environment and has excellent relationships across the business, while Opiuyo Oforiokuma has significant experience in managing change programs within our businesses in Chile and while in Thames Water' International business. Their different strengths and perspectives are an excellent combination and will enable us to ensure that the Business Change Program is aligned with our strategic goals, implemented within our timeframes and financial parameters, effectively coordinated and communicated, and successfully integrates all of the different change initiatives that are occurring within the regional businesses and in the various functions. The role is of critical importance and both Nick and Opiuyo report directly to the President.

**12. Q.** What's different about the new strategy?

A. Firstly, we will significantly grow our presence in the market for wastewater services, which offers attractive opportunities. Secondly, we will increase our presence in the growing markets in the South and the West in order to obtain a portfolio, which is more regionally balanced. Thirdly, American Water will become the preferred partner for municipalities in solving their water and wastewater problems. These main elements will be supplemented by a range of new technical offers, that will enable us to address the water supply and in water and wastewater infrastructure: desalination and reuse.

**13.** Will we continue our growth in the water market in our traditional regions?

A. Yes, but we will increase our focus on the South and West in order to balance our regional portfolio. We will also shift the emphasis to wastewater in order to balance the decrease in attractive water opportunities in areas where we have already achieved a significant market position. Our traditionally strong markets in the Northeast will continue to be a priority.

**14.** Why is wastewater attractive?

A. In our existing footprint municipalities are facing increasing needs to upgrade and refurbish their wastewater systems. As state funding will be less available they are likely to be increasingly receptive to the private sector and American Water, having proven its expertise and reliability in operating water systems, will also seek to offer wastewater services. This will enable us to realize operational synergies in areas where we already operate the water system. American Water also has an offer, which has already proven successful in some states for decentralized, on-site wastewater systems. These are needed in the growing number of new residential and commercial developments beyond the reach of centralized wastewater systems.

**15.** What are the benefits of RWE's ownership for our business?

A. The business for the American market is developed and managed in the US. However, being part of the RWE Thames Water group gives us unique advantages in delivering our strategy. Thames Water has always been active both in water and wastewater and as such has enormous expertise in the latter. This will enable us to transfer this wastewater knowledge from the UK to the USA. With PRIDESA one of our European businesses, with expertise in desalination we are in an excellent position to capture the opportunities in this growing market in the US's arid regions. RWE's financial strength provides us with access to capital to invest in the business. We also benefit from joint training and development and RWE's talent pool.

**16. Q.** Why do we need a Vision statement?

A key reason for having one is that employees have asked for clarity about the Company's vision. A Vision statement is a simple way of providing clarity to employees, customers, regulators and other key stakeholders about what kind of business we are and what we stand for. It sets out a realistic ambition of what kind of organization we want American Water to be and should enable us to consistently

reflect on our activities, and our strategic plans to ensure that they are aligned with this new Vision for the business.

**17. Q.** What's happening with the other parts of the "building blocks" that were described in the first "Shaping our Future" communication?

A. We will take each of the building blocks in turn and provide you with an update on progress:

#### Culture

- **Communication:** We have created a new function of External Affairs, which is led by Dan Kelleher. Dan is developing plans to create improved internal communication infrastructure, for example creating feedback channels for employees and improved training and development for managers to ensure that they can deliver key messages to employees at the right time in the right way. Hopefully, the series of communications that began with the "Shaping our Future" has set a new style, tone, and standard for communication across the business.
- **Employee Satisfaction:** The Employee Opinion Survey action plans that have been developed in each of the businesses will be included in the monthly and quarterly business review process that the COO chairs. Each senior manager and head of the Region will be measured on a number of the categories in the Employee Opinion Survey through the balanced scorecard. During the course of 2004, we will resurvey the business to measure the progress we have made in each of the categories.
- **Training and Development:** Review of the training and development programs is underway with review to implementing revised training and development during 2004.
- **Labor Relations:** Significant investment has been made in improving the quality of relationships with unions at the local and national level. The philosophy for labor relations is built around the notion that unionized employees and union leaders are key stakeholders in our business and deserve the same respect as other stakeholders. We are seeking to "partner" with our unions to help us address our key business challenges in the next few months.
- **Diversity:** The current selection process has enabled us to understand the strengths and the relevant needs of our senior management pool, and we are taking a long hard look at the diversity of that group. During the course of 2004, we will be proactively addressing some of the diversity needs that we face as a business.

#### Strategy/Organization:

- The strategy for American Water has been developed and approved by the Executive Management Team (EMT) and has been communicated this week.
- **Vision Statement:** The Vision Statement has been consulted on widely within the business and an amended version has been validated and signed off by the EMT. This has been issued this week to employees
- **Organization Design:** The first key steps of the organization design, including the development of the new business model and the new top structure has been

concluded and selection and appointment decisions have been made. This process will continue now and cascade through the organization.

- Divestments: We continue to analyze the shape and content of our business portfolio. The new business strategy, enables us to undertake a rigorous assessment process of every business' strategic fit as well as its performance and the value that it creates. This is an on-going piece of work.

## Performance

- Business Process Improvement: The "blueprinting" of the business processes is ongoing and the "as-is" process blueprinting has largely been completed. The next step is to bring together teams of individuals to create the "to-be" process maps for the business. These will then be carefully implemented across the business and this will be coordinated through the new Business Change team.
- Technology and Systems Improvements: The successful completion of the business process mapping and blueprinting will enable the decisions around supporting business systems to be made. This will happen during the early part of 2004.
- Efficient ways of working: There are a number of initiatives that are currently underway across the business, which are driving efficiencies and productivity gains. These will be communicated in a separate "Shaping our Future" communication pack in the coming weeks.
- Performance Management: There are number of initiatives that are underway to improve the way in which we set goals, align our activities, measure our performance, and recognize successful performance. These include the new target-setting process for senior executives, the balanced scorecard, and the development of a new performance management system, which includes a 360° review element. As this work further develops, there will be more communication of how these performance management tools fit together and what impact they will have on each of us in the business

## Growing the Business

- Strategy Alignment: The conclusion of the business strategy enables all of our business development plans to be reviewed and realigned with the new strategy. This should help us to focus on the most value adding products and services that we can offer our customers, and should eliminate the pursuit of new business that does not provide the required level of value to the business.
- Training and Development: There is a major initiative underway to develop the tools for business developers and to support them in winning the right kind of sustainable, profitable business as we go forward. These new tools and techniques will become available to business developers in early 2004.
- Performance Management: Business developers will utilize the performance management tool that aligns their plans and objectives and monitors their progress in a more comprehensive way. The new performance management tool for business development will be implemented early in 2004.



- **Expanding Business Lines:** Progress is being made in the development of two strategic business lines for American Water. Firstly, our wastewater offering to the municipal market and to existing customers, and secondly, our use of the desalination capabilities and that are provided by PRIDESA, a sister company within RWE/Thames Water Europe Region.

**18. Q. Four new Regions and Regional Managing Directors have been announced. What roles will Chris Jarrett, John Eckart and Eric Thornburg have in the organization? Will they continue to be presidents of the states they are now representing?**

A. Chris, John and Eric continue to be valued members of our organization. Each of them has been encouraged to consider roles in the organization as additional levels of our structure are announced. In the meantime they will remain in their current roles to ensure continuity of service and maintain key stakeholder relationships

**19. Q. Why is Ellen Wolf, CFO, leaving the business now?**

A. Ellen Wolf has chosen to leave the business at this time to pursue alternative opportunities elsewhere. Having steered the finance function during the last few years, and being a key player in the sale of American Water Works to RWE/Thames Water, Ellen has deemed it an appropriate time to move on to fresh challenges. We have also taken the opportunity to reconfigure the senior finance role in the America's Region so that it is consistent with the most senior finance manager roles within RWE/Thames and across the Water Division worldwide. We wish Ellen every future success in her career.

**20. Q. Who does the head of American Water Services report to?**

A. Walter Lynch continues to lead our non-regulated businesses, Products and Services, and to report to the COO, Jim McGivern.

**21. Q. Will the five regions of American Water Services become part of the American Water regions? If so when will that occur?**

A. AWS has recently gone through its own organizational review and the regional structure is being changed to focus on each of its separate lines of business, e.g., O&M, Military, Residuals, etc.) in order to meet their plans. The O&M and utility contracts business will transition into the new Region to create a more integrated business by 2005.

**22. Q. Will the Managing Directors of the new regions keep their same staff or will they create new positions and who is eligible for those jobs?**

A. The new Managing Directors will be developing their own structures and selecting future senior teams. A "Strawman" structure has been developed (page 22 in the slide pack) for the regions and this will be the starting point for the Regional MDs. The new jobs will be posted and suitably qualified individuals will be able to apply for them. Short listed candidates will go through the PDI assessment process.

23. **Q.** Will the Managing Directors of the new regions continue to manage or be presidents of the subsidiaries they came from?

A. The primary job for the new Regional MDs is to provide the leadership and drive to the whole of the new region, ensuring we deliver on performance and growth targets, and build the right culture. However, each of the new Regional MDs has strong relationships with their existing regulators and stakeholders and we need to continue to capitalize on these. We do not intend to add layers of management to the business so we will be asking the Regional MD's to "double up" in their roles.

24. **Q.** Where will the new Regional headquarters be based?

A. For the foreseeable future, the Regional Head officers will be based in San Diego, St. Louis, Hershey and Lawrenceville. Each of the new Regional MD's has an action to confirm the long-term location of the headquarters. This will involve analysis of factors such as: location of buildings and people; cost; travel time; location of stakeholders, etc. The MD's will be making their decisions quickly to enable the phase 2 and 3 process to be clearer for employees.

25. **Q.** How many top management layoffs have there been and will there be more?

A. Thirty of our senior executives went through the selection process for our top ten jobs. We have communicated to each of them the decisions that we have made, and have discussed feedback from the assessment process with each of them. Development plans are being put in place to support their development, both for those that have been appointed and for those who were not successful in this phase of the process and who remain in the business. Those who are unsuccessful are being invited to participate in the next phase of the selection process, where further senior jobs will be vacant in the coming weeks. We do not anticipate lay-offs occurring until the second phase of the selection process has been completed, where our executive management group has been reviewed and appointed.

26. **Q.** When will I know if my job has changed?

A. The Regional Managing Directors and the new Functional Heads in the center of the business are working on their new structures and defining the roles that they require to take the business forward in the next few days. November 26<sup>th</sup>, a special internal recruitment bulletin will be published that provides details of all of the vacant positions so that potential candidates from across the business can apply to be considered. In advance of that notification occurring, individuals whose jobs have changed, and individuals whose positions have not changed, will be advised by their manager. Those whose jobs are changing will be asked to go through the selection process.

27. **Q.** When will I know if I have to apply for a job?

A. Individuals who are in the next layer of the organization below the President and the Chief Operating Officer's direct reports will know if they have to apply for a job by the 26<sup>th</sup> of November at the latest.

**28. Q. Who or what is PDI?**

A. PDI (Personnel Decisions International) is an independent firm of consultants that specialize in leadership development and assessment. They have a database of over ten thousand assessments which they use as benchmarks to rate individual capabilities. They are highly respected around the world for the quality of their work.

**29. Q. Why and how were PDI chosen?**

A. PDI were chosen to enable us to have an independent, third party assess our leadership talent pool, to provide us with objective data on their skills, experience and fit for specific roles. PDI were chosen because of their professional qualifications and were the best of the four companies that we invited to submit tenders for and this work. Feedback from the candidates going through phase 1 has been that PDI have managed the process professionally and sensitively.

**30. Q. The Employee Opinion Survey indicated that employees are highly skeptical about the selection decisions that have typically been made in the past for management positions. There is a low score for "appointments being made based on merit". What's different this time?**

A. This selection process is different because we are using an external provider to benchmark candidates and provide objective data. Although we will be using our judgment about the suitability of candidates for posts and will take account of individuals' track records within the Company, we feel that this internal data has some limitations. The PDI process is also enabling us to put together personal and professional development plans for the individuals which help us further develop our leadership talent.

**31. Q. Who makes the decision about appointments?**

A. The decisions in phase 1 were made by the two "hiring managers", Jeremy Pelczer as President, and Jim McGivern as Chief Operating Officer, for their respective direct reports. Those positions were discussed at length in a review meeting made up of Jeremy Pelczer, Jim McGivern, Dietrich Firnhaber, Dan Kelleher, and Matt Huckin with support from PDI. In phase 2, the hiring managers who will be making decisions about selections, will be the individuals who report to Jeremy Pelczer and Jim McGivern. Hiring decisions will be approved by the President before they are communicated to individuals and the business as a whole.

**32. Q. Will Thames Water and RWE employees have the opportunity to be considered for the roles in the AW structure?**

A. The special recruitment bulletin will be circulated amongst Thames Water and RWE, to see if there are any suitable candidates for the roles. However, American Water employees will have priority for the vacant positions and it is likely that only a small number at most of non-AW managers will be seriously considered for roles in the new structure.

**33. Q. Will American Water employees have the opportunity to be considered for roles in other parts of Thames Water and RWE?**

A. There are occasionally opportunities for American Water employees and where these arise, they will be communicated through the normal posting process. American Water employees are encouraged to apply for the roles outside of the USA when they are a good match for the specific vacancies. RWE is eager to encourage "internationalization" and mobility of talented individuals across the system.

**34. Q. How can we keep focused on delivering results while this selection process is going on?**

A. We appreciate that this process is difficult for individuals and may create some additional anxiety. However, we feel it is essential that we deliver on our goal of getting the right people in the right place at the right time to enable the business to really progress. We are confident that employees at every level in the business are highly committed to delivering service to our customers, and that we will maintain consistently high levels of performance as the process unfolds.

**35. Q. What happens if my job is materially changed, but I am not willing to undertake another role?**

We will be reviewing each individual circumstance on its own merit and making decisions, which are fair, consistent, and in the best interest of both the business and the employee. Should an individual be unwilling to participate in the selection process, or does not wish to be considered for a changed or new job in the new structure, then they should discuss this with their Line Manager and their HR Manager.

**36. Q. What happens if I end up without a job?**

A. If through the selection process you end up without a job, we will attempt to redeploy you into an alternative role and you will have the opportunity to be considered for roles at the next level in phase 3.

**37. Q. If I am laid off, what terms will I leave the business on?**

A. The severance terms that will be used are the "enhanced severance" terms that we have used in recent lay-offs arising from organization changes (i.e. the move of customer service jobs to the Customer Center).

**38. Q. If I am appointed to a position within phase 1 or phase 2, what will happen to my pay, incentives, targets and objectives, job title, etc?**

A. All of these matters will be resolved within the near future. As jobs are changing we need to take a view on the size of the job and the market price for that job and then advise individuals of the implications of the change for them. Incentives, targets and objectives will be set and will be agreed with line managers to commence the 2004-year. In the interim, there will be no changes to individuals' pay, grade or status, and obviously each situation will be reviewed on an individual basis.

**39. Q. Will the "no detriment" promises be honored?**

A. Yes. The Company will maintain its commitments under the RWE/Thames Water sale agreement.

**40. Q. How will these changes affect commitments made during the regulatory approval process?**

A The Company remains fully committed to meeting all promises made during the regulatory approval process. In fact, the changes being announced are the start of a business transition intended to further expand our commitments to maintain local decision-making, implement best practices and continue investing in infrastructure.

**41. Q. Today's announcement confirms only the top level of the organization structure. What about the rest? When will it be announced?**

A Over the next several days the newly appointed Regional MDs and functional heads will work to define the structure of the next level, and the design will be communicated before the end of the year.

**42. Q. Will there be a "Phase 3" process?**

A. Yes, there will be a phase 3 process once the phase 2 appointments have been completed. It is anticipated that this will occur during January and February 2004, and it will obviously affect the layer below the phase 2 level of management.

**43. Q. How will I find out about the phase 3 process and what it means for me?**

A. The phase 3 process will be managed in a similar way to phase 2 with an open communication and individuals' issues being sensitively managed by Line Managers. The process will be fair, open and objective, and we are committed to managing it with in as short a timeframe as is possible.

**44. Q. Do our Unions know what is going on?**

A. We have briefed our union leadership at the national level with regard to these changes. Relevant line managers will be undertaking communication meetings with union leadership in their local areas in the coming days, and union employees will obviously be attending other team briefings in the normal way. We have spent a significant amount of time and energy in communicating the changes, the rationale behind them, and the implications of these changes for employees across the business, and we feel that the unions understand the need for change. We will continue to commit ourselves to working in partnership with our unions who are key stakeholders in the business as the process continues through the organization.

**45. Q. How many positions will be involved in Phase 2?**

A The precise number is not yet determined, but it is likely that about 30 positions will be sufficiently different or completely new and will therefore need to be filled.

**46. Q. How many positions are expected to be eliminated as a result of the first two Phases of the restructuring?**

A. The exact number will not be known until the Regional MDs and functional heads have completed their organization design work and the selection process in phase 2.

**47. Q. When will the changes be effective? Are the four regions effective as of today? Do the other presidents now report to the managing directors of the new regions?**

A. The changes are effective from today. All employees within each of the new regions, including the existing presidents, will report to the new Regional Manager Director.

**48. Q. When will the reorganization process be completed?**

A. We anticipate completing the management layers by the middle of **2004** at the latest. The quicker we can complete the process the faster we will be able to focus the new management team on delivering the results.

**49. Q. Which level of jobs is included in the next set of selection events, i.e. the so-called phase 2?**

A. The phase 1 process covered all of the direct reports to the President, Jeremy Pelczer, and the direct reports to the Chief Operating Officer, Jim McGivern. In phase 2, it is the direct reports of the top team that have been announced on the 19<sup>th</sup> of November that will be included in the selection process.

**50. Q. How can I raise my questions and get answers in confidence?**

A. We encourage you to raise any questions that you have with your immediate supervisor **and/or** your communication manager or HR advisor in your business unit. You can also raise questions directly with the corporate team managing the change process via email to [shapingourFuture@amwater.com](mailto:shapingourFuture@amwater.com). Questions/comments will be addressed individually or in future communication material. Your contribution to this process is very welcome and please feel free to raise any questions that you might have.

**51. Q. What is happening with the Business Development function?**

A. The Business Development role at the center is changing to a coordinating and enabling function with bids and new projects being delivered within the regional businesses. Each region will have a lead business developer reporting to the Regional Managing Director, and with a dotted line functional relationship to the new head of business development in Voorhees, Bill Malarkey. The new regional business development roles are different to those at present, given the greater geographic and integrated regulated and non-regulated breadth. The phase two process will ensure we select the best-fit candidate for these key regional roles to complement Bill Malarkey's appointment in the central role. Significant investment will be made in **2004** to build the capabilities and support the performance of our Business Development teams.

**52. Q.** How will we know when the new organization is successful?

We will know if we have been successful when we have measured the organization internally, via the Employee Opinion Survey, and demonstrated that employees are:

- Aligned with our vision and strategy
- Seeing the values being demonstrated by everyone
- Confident about their future in the business
- Developing new skills and getting good quality feedback
- Fully informed about the business and our progress and having opportunities to have their voices heard
- Benefiting from the success of the business and seeing our business grow
- Receiving the quality of leadership they deserve
- Proud to be part of American Water and providing excellent customer service

Our customers and external stakeholders will know the new organization has been a success when:

- Consistently high levels of service are provided
- The services represent excellent value for money
- American Water is a role model for corporate social responsibility and business ethics
- Innovative solutions are provided to meet their needs
- We demonstrate our respect for them and the environment in which we operate.

Jeremy Pelczer@AWW  
Sent by: Gail  
McDevitt@AWW

To: \_AWW-Org - Enterprise Notes Users\_121202WX@aww  
cc:  
Subject: Special Announcement From Jeremy Pelczer - President American  
Water

11/19/2003 12:51 PM

Dear Colleague,

In the recent 'Shaping our Future' communication, I promised that you would receive the **Vision, Strategy** and Executive Management Team **Structure** this week. After a period of excellent team-work involving people from across the business at a variety of different levels, I am pleased to announce the outcome of these three important initiatives.

The new **Vision** for American Water is: "To be your trusted water resource company, dedicated to delivering innovative solutions." This simple but powerful message will enable us to move forward together in 2004 and beyond. Each word has been carefully chosen after extensive consultation across the business. I believe that this is a Vision for American Water that we can all be proud of and commit ourselves to achieving. I hope you agree that it sums up the relationship we want to have with our key customers and stakeholders.

Following a six-month project to develop a winning **Strategy** that has been thoroughly tested and reviewed by leaders across the business, I can now share the key strategic goals and drivers for the business. We will:

Focus on being a customer responsive company, presenting a single point of contact to our customers, and offer a range of solutions to meet their water and wastewater needs.

Build on our success and core strengths in the drinking water market while expanding our footprint into the wastewater market; capitalizing on the wastewater experience of RWE Thames Water.

Expand both our presence and our range of services in the growing states of the South and West. Continue to serve our customers and grow in our traditionally strong regional markets.

Develop new offers such as desalination; leveraging the expertise and experience of other RWE Thames Water Group companies, notably Pridesa with whom we are building a strong relationship.

Target a long-term "partnership" approach to our most significant customers, the municipalities; it is our relationship with these customers, which will give us our sustainable competitive advantage.

I would welcome your reaction to both the Vision and Strategy and you are invited to let me have your views or questions via email to **shapingourfuture@amwater.com**.

I am pleased to confirm that we have completed the Organization Review and finalized the **Structure** for American Water.

We have also completed the selection process for the new Executive Management Team in



the new structure. We were supported by an external consulting firm (PDI), which conducted objective assessments using the highest leadership standards and benchmarks for thirty candidates from our existing executive team. From the thirty that went through the assessment centers, ten individuals have been selected for the new roles in the structure. Some of the key features and appointments in the new structure are as follows:

The existing seven regulated Regions, and the five non-regulated regions in AWS have been combined to produce four new streamlined business units. The new Regions have been agreed upon after careful consideration of the following factors: customer numbers; employee numbers; growth potential; "State-culture"; location of offices/assets; spans of control; opportunities for efficiencies; stakeholder management issues; and employee capabilities.

The new Business Units will be led by Regional Managing Directors. The new Regional Managing Directors report to the President of American Water.

The four Regions and their respective Managing Directors are as follows: Western Region, Paul Townsley; Central Region, Terry Gloriod; Southeastern, Bob Ross; Northeastern, Andrew Chapman. The current State/Regional Presidents [John Eckart, Eric Thornburg, Chris Jarrett, Ray Jones, Roy Mundy, Dave Schultz] will continue in their existing roles to ensure continuity with their customers, employees, and regulators for the immediate future. Our business in Chile will continue to be led by Eduardo Verdugo.

The Western, Central, and Southeastern Regional MD's will be developing their new management structures and will begin the selection process for their direct reports within the next two weeks. The Northeastern Region will continue the organization changes and selection process currently underway as New Jersey-American and Elizabethtown Water are integrated.

A Business Change team that has accountability for shaping and driving through our Business Change initiatives that make up the "building blocks" for change (Culture, Strategy/Organization, Performance, Growing the Business) in a coordinated way has been established and appointments made. This team will be jointly led by Nick Rowe and Opiuyo Oforiokuma.

Strengthened functional roles under the Chief Operating Officer, Jim McGivern, have been created and the following appointments made: Operations and Investment Performance, John Young; Regulatory and Contract Performance, Mick Carmedy; Business Development, Bill Malarkey; and Customer and Shared Business Services, Bob Collington. These functional roles will be responsible for defining common standards and ways of working and ensuring that we are consistently providing the highest levels of service to our customers. Jim McGivern has accountability for business performance and growth across the whole business and for these activities, the Regional MD's will report to him, as well as the President. Our Products & Services business (including AWS) will continue to be led by Walter Lynch, and will report to Jim McGivern. The O&M and military contracts when operational will transition into the new Regions during 2004.

The new Functional Leads will also be undertaking a similar exercise in the next few days to define their structures and select senior managers for their teams.

Dietrich Firnhaber assumes a new RWE/Thames Water Division-wide role leading Legal Services, as well as providing oversight and support to the American's Audit function; and accountability for growing our Property business. Dietrich will also chair our Strategic Review Committee.

Dan Kelleher assumes responsibility for External Affairs, which is the combination of external and internal communication, government relations, representing American Water in industry-wide bodies, community relations, and corporate social responsibility (CSR).

Our Chairman, Bill Alexander, announced on Monday that John Bigelow has been appointed to the new lead Finance role for the Americas, succeeding Ellen Wolf who will leave the Company at the end of November.

Matt Huckin continues in his role as head of the HR function for the Americas.

The structure charts with confirmed appointments and brief bullet point outlines of the roles are included in attachments 1 and 2. Attachment 3 shows a map of the new Regional structure for American Water.

The business model and organization structure has been designed to drive: the creation of the customer service and performance culture; accelerated business growth; the development of common processes and raised standards; continued operational efficiency, integrity and corporate governance. It will also lead to a more integrated business within the new Regions and the achievement of our business targets in the business plan. We will measure our progress in achieving these goals in the coming months.

Although there remains much work to be done as the new Executive Management Team define their structures, the key roles that report to them, and select their teams, I am confident that we are on track to achieve our goals in 2004. I remain committed to ensuring that the process is open, objective, fair, and quickly delivered to reduce any anxiety that such business change typically produces.

If you have any questions surrounding this material, please ensure that you raise them with your Line Manager, your Communication Manager, or your Human Resources representative. Senior managers across the business are being provided with a communication pack that provides further details and information that will enable them to answer any initial questions that you have. This material will be cascaded to you in the coming days and you will have an opportunity to raise your concerns or questions.

Thank you very much for your ongoing commitment and support.

Yours Sincerely,

Jeremy Pelczer  
President, American Water

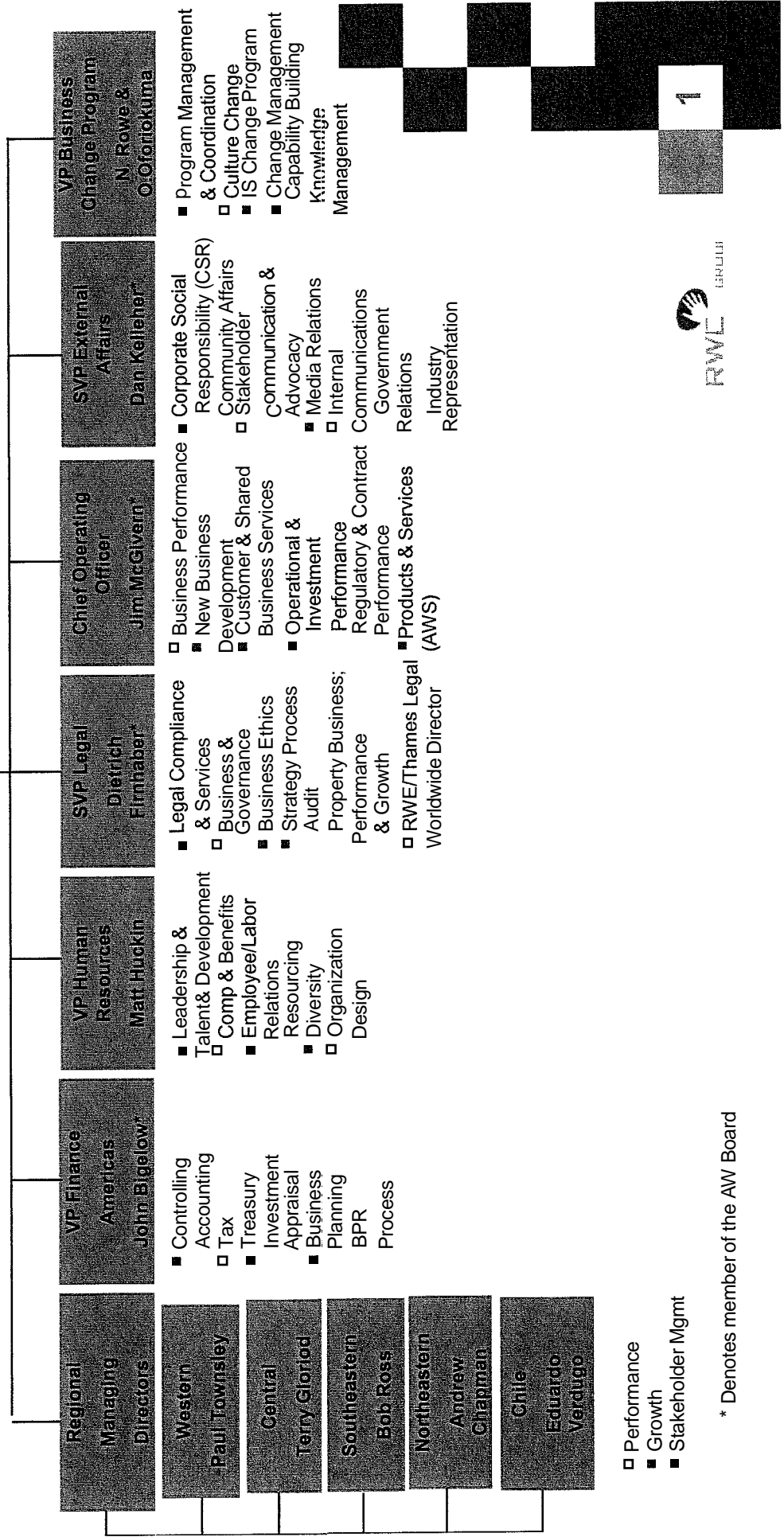


# Attachment 1

## The New Structure: The Executive Management Team Direct Reports to the President & their key Accountabilities



**President  
Jeremy Pelczer\***



- Performance
- Growth
- Stakeholder Mgmt

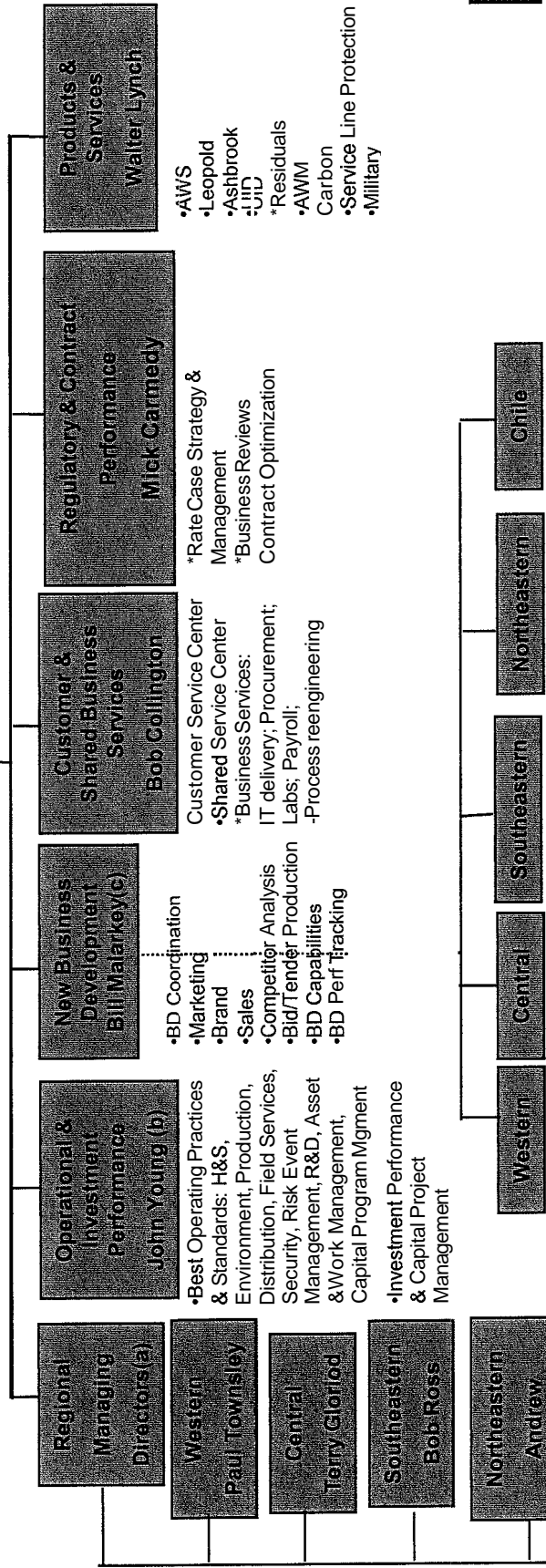
\* Denotes member of the AW Board



1



# Attachment 2 The New Structure: Chief Operating Officer Team and Key Accountabilities:

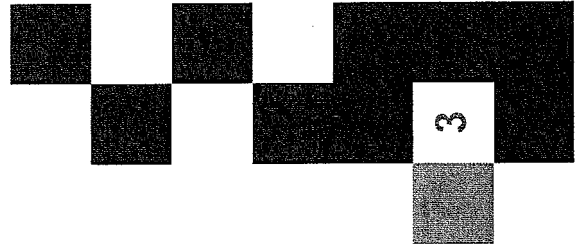
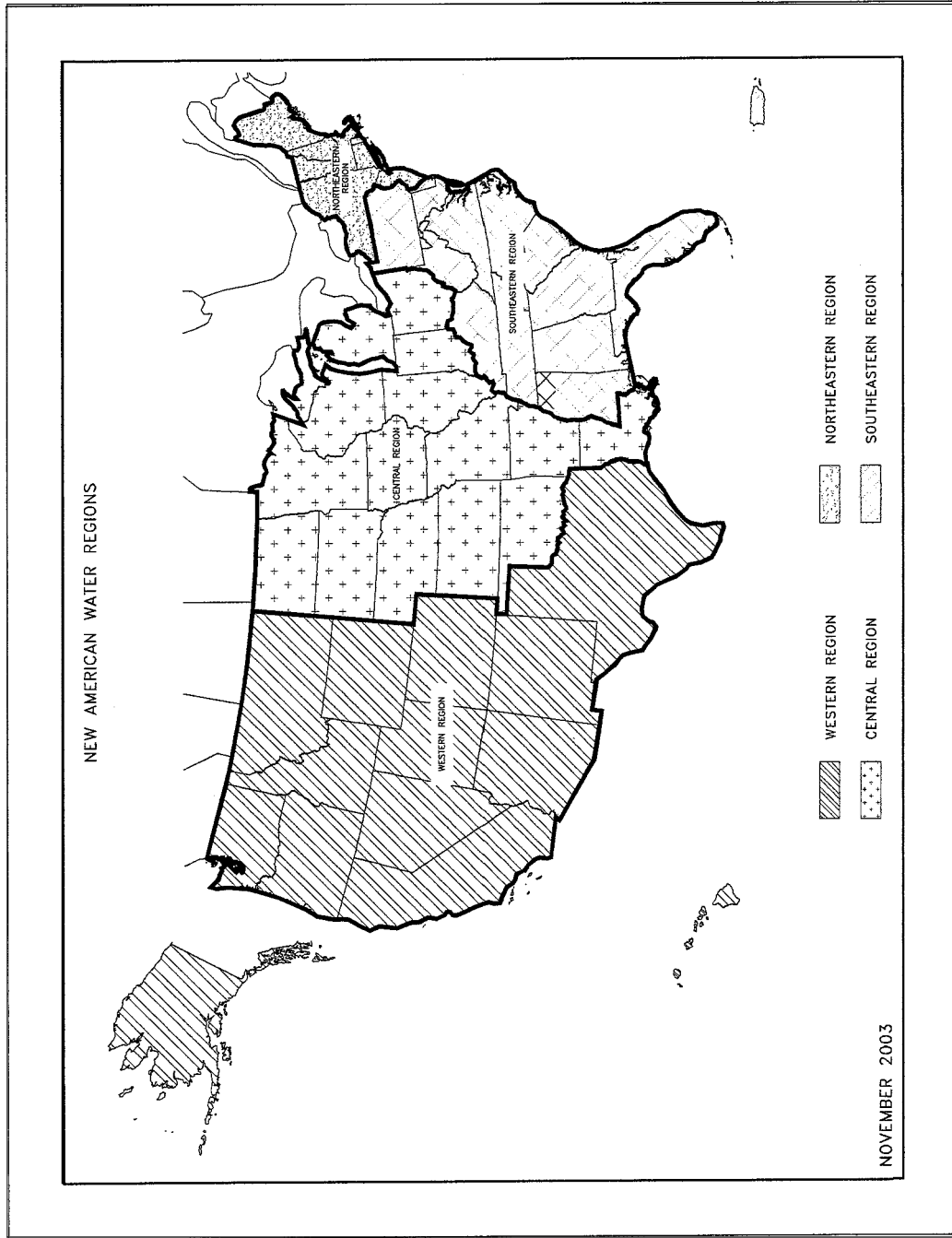


**Notes:**  
 (a) Regional Managing Directors report to AW President for EMT company-wide matters and career development; and report to the COO for Business Unit performance and growth accountabilities. Four new 'Regions' have been designed in AW that balance growth potential, customers, assets, and leadership capabilities; plus Chile  
 (b) Key focus on driving operational improvements and standardization; delivering return on capital invested  
 (c) Each business region is "matched" with a lead business development manager who reports to the MD of the region and functionally to the head of the Business Development within the COO team. These regional roles to be confirmed in Phase 2.





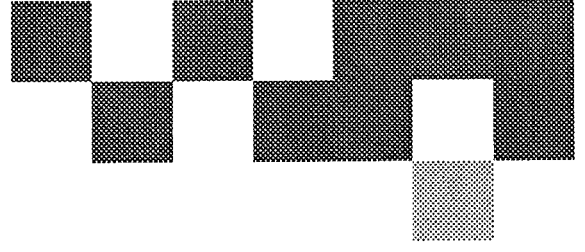
Attachment 3

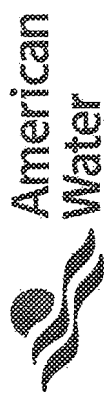




# American Water Shaping Our Future

Communication Briefing 2  
November 19, 2003





## Communication Objectives

This is the second communication briefing in a series which is designed to keep everyone in American Water informed of what we are doing to meet the challenges facing the business

The objectives of this pack are to:

1. Communication the Vision for American Water
2. Communicate a summary of the Strategy for American Water
3. Confirm and explain the organization design and Structure of American Water
4. Describe the selection process used to appoint the top team
5. Confirm the new Executive Management Team
6. Provide you with details of the key next steps
7. Give you an opportunity to have your initial questions answered





# Contents

## Context

- Vision
- Strategy
- The new organization and appointments
- Next Steps
- Discussion



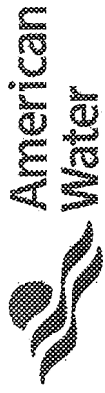




## Context

- In the first communication briefing ("Shaping our Future"), we discussed:
  - The business challenges we are facing
    - the compelling reasons for change
    - other economic, environmental and political challenges
  - The building blocks of our Shaping our Future business change program
  - The objectives and principles we have set ourselves for the organization
  - The way we want to work in American Water
  - Next steps and key dates
  
- **Our first step to meet these challenges has been to confirm our vision, strategy and structure and complete a rigorous and fair recruitment process for our top jobs**





# Contents

- Context
- Vision
- Strategy
- The new organization and appointments
- Next Steps
- Discussion

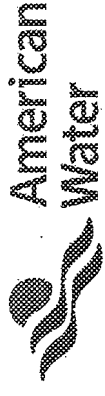




## American Water Vision

- A draft Vision Statement was created at the “Shaping our Future” conference on October 1<sup>st</sup> and 2<sup>nd</sup>
- This draft has been tested, amended, and validated in consultative meetings involving more than 300 people across the business
- The Vision is a statement of our realistic ambition as a Company and provides a picture of what we aim to be. It is useful internally to align our activities and reinforce our values
- It is important externally because it confirms our vision to serve, innovate, and respect all of our stakeholders





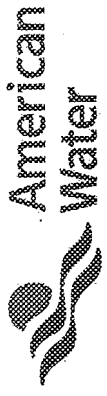
## American Water: Vision

"To be your trusted water resource company, dedicated to delivering innovative solutions."

November 17, 2003



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# Contents

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## American Water Strategic Objectives

We will:

- Become the premier choice for our customers
- Provide innovative solutions to meet our customers' needs
- Develop a strong wastewater business
- Balance our portfolio (products and services and regional presence)

In order to:

- Satisfy our customers
- Grow the customer base
- Meet our financial targets

The detailed strategy for AW has been completed and a separate communication pack will be issued next week.



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## Our Strategic Initiatives for Growth

- Continue consolidation of the water market with emphasis on “tuck-ins”
- Grow the wastewater business in our existing water “footprint”
- Establish positions in new, proven, technologies to resolve water shortages arising from population growth, e.g desalination
- Strengthen and deploy our business development resources to faster growing areas
- Develop municipal partnering concepts to leverage opportunities due to the market’s growing infrastructure needs and environmental regulations



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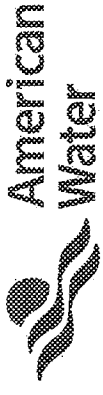
# Shaping Our Future – The New Organization



■ We have remained focused on the principles described in our first communication briefing when designing the new organization and we aim to:

1. Deliver on promises to our customers and communities
2. Change the culture at the Center and in the Regions
3. Build new capabilities – wastewater, desalination, contract management (e.g. O&M), supervisory/line management, leadership of change and business development
4. Ensure we have the “right people in the right place”
5. Promote and facilitate diversity
6. Strengthen our functional organization: break down “silos”; implement common systems and processes; raise standards; eliminate waste; create efficient operations
7. Structure the business to accelerate growth
8. Protect and enhance all our stakeholder relationships at the local level
9. Maintain operational integrity; health, safety, security, environment
10. Deliver business targets and business plan/budget commitments





## The New Organization (1)

- The Role of the 'Center'
  - To manage and facilitate the strategic and policy development processes
  - Decide and communicate performance standards, vision and values
  - Develop capital investment strategy; lead major transactions, e.g. M&A
  - Liaison with the RWE/Thames Water Center(s) and functions
  - Risk management and mitigation; governance; reporting and compliance
  - Challenge and Support business units to deliver results
  - Build organizational capabilities (people, systems, processes)
  - Build trust and transparency and turn our values into action

**“To serve and enable the Regions”**



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## The New Organization (2)

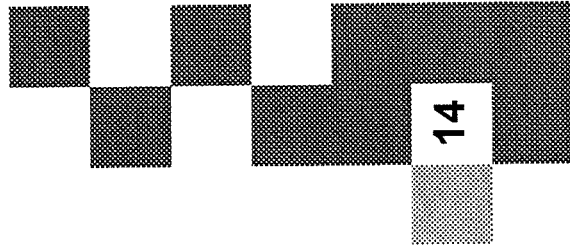
- The Role of a Function at the business center (e.g.: HR, Finance, etc.)
  - To manage and facilitate policy development and standards
  - Build functional capabilities
  - Facilitate knowledge transfer and organizational learning
  - Measure and track performance delivery
  - Promote functional and cross functional team working
  - Act as a "resource broker" for the function
  - Define the "freedom to act" within governing frameworks
  - Drive organizational efficiencies
  - Challenge and Support delivery of results

The functional leads in the Region will work in close alignment with the center functions

**"To Serve and Enable the Regions"**



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## The New Organization (3)

### The Role of a Regional business:

- Accountable for Profit and Loss and to build on the foundations laid in the Business Plan
- Deliver and optimize performance in regulated and non-regulated operations
- Deliver growth targets
- Build relationships that add value – customers, unions, political, regulatory, community
- Develop and deploy human resources; create a productive working environment; build employee involvement
- Invest capital in line with strategy
- Build a performance and a customer focused culture, and support our people at the 'frontline' to deliver excellent service
- Build trust, transparency and turn our values into action

### "To Serve Our Customers"



# The New Regions

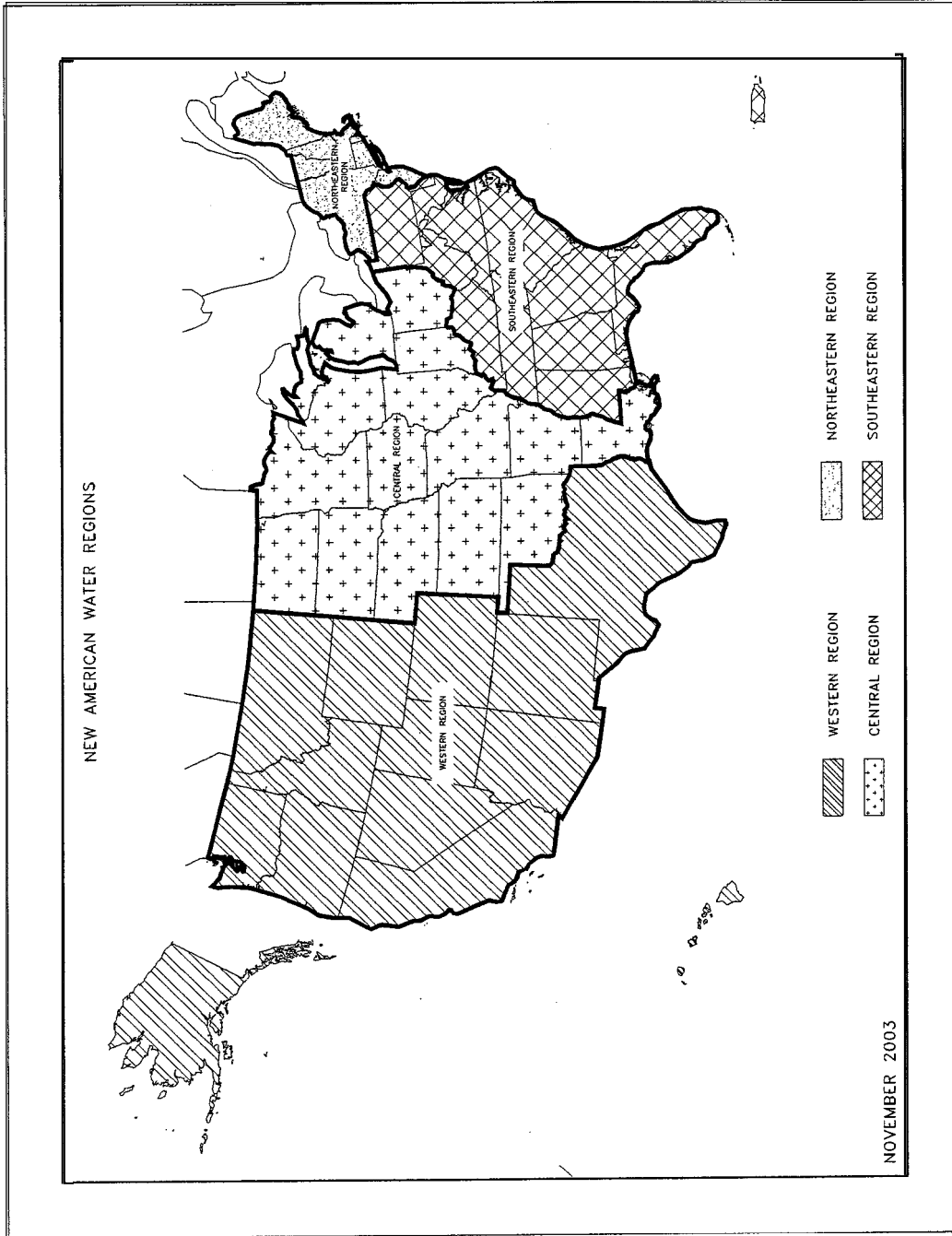
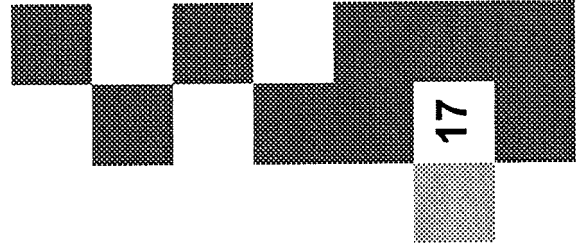
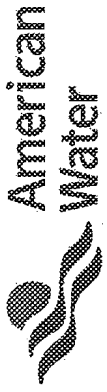


Existing seven regulated and five non-regulated regions will be combined into four streamlined and fully integrated regions

- Decision criteria for creating new regions:
  - Customer numbers
  - Employee numbers
  - Growth potential
  - State by state "culture"
  - Location of offices/assets
  - Span of control (ratio of managers to employees)
  - Opportunities for efficiencies and performance improvement
  - Stakeholder management issues
  - Employee and organizational capabilities

These will be located in San Diego, St. Louis, Hershey and Lawrenceville for the foreseeable future







## The Selection Process

- The selection process has been developed to ensure:
  - Selection decisions for the leadership roles in the new structure are based on objective data
  - Individuals have an insight into their strengths and development needs
  - Selection decisions reflect the strengths needed to implement the new organization and strategy
- It is important that the selection process is:
  - Fair
  - Objective
  - Timely
  - Open and transparent
  - Conducted professionally
- The process has been designed to address specific issues raised in the Employee Opinion Survey about past appointments not always being made on the basis of merit





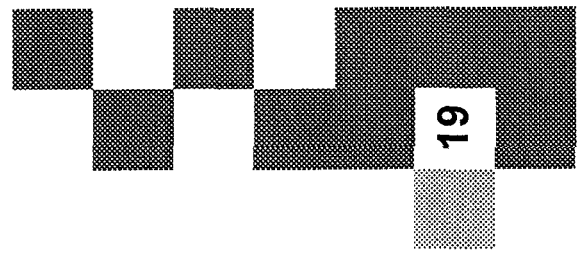
## Phase 1 Selection Process – The Executive Team

- To ensure objectivity, we have partnered with an external consulting firm (PDI) that specializes in leadership assessment and development
- PDI have been briefed personally by Jeremy Pelczer on the new structure, desired culture and new positions

The process consisted of a one and a half day leadership assessment program at PDI’s offices, and comprised:

- A structured interview
- A series of business simulations
- Standardized tests of cognitive thinking skills
- A personality questionnaire
- Initial feedback on individual performance

The results from the selection process were used by Jeremy Pelczer and Jim McGivern, supported by HR and PDI, to make our executive appointments





# The New Structure: The Executive Management Team Direct Reports to the President & their key Accountabilities



**President**  
Jeremy Pelczer\*

- Regional Managing Directors**
  - Western**  
Paul Townsley
  - Central**  
Terry Gloriod
  - Southeastern**  
Bob Ross
  - Northeastern**  
Andrew Chapman
  - Chile**  
Eduardo Verdugo

**VP Finance Americas**  
John Bigelow\*

- Controlling
- Accounting
- Tax
- Treasury
- Investment
- Appraisal
- Business Planning
- BPR Process

**VP Human Resources**  
Matt Huckin

- Leadership & Talent Development
- Comp & Benefits
- Employee/Labor Relations
- Resourcing
- Diversity
- Organization Design

**SVP Legal**  
Dietrich Fimhaber\*

- Legal Compliance & Services
- Business & Governance
- Business Ethics
- Strategy Process Audit
- Property Business; Performance & Growth
- RWE/Thames Legal Worldwide Director

**Chief Operating Officer**  
Jim McGivern\*

- Business Performance
- New Business Development
- Customer & Shared Business Services
- Operational & Investment Performance
- Regulatory & Contract Performance
- Products & Services (AWS)

**SVP External Affairs**  
Dan Kelleher

- Corporate Social Responsibility (CSR)
- Community Affairs
- Stakeholder Communication & Advocacy
- Media Relations
- Internal Communications
- Government Relations
- Industry Representation

**VP Business Change Program**  
N. Rowe & G. Oforokuma

- Program Management & Coordination
- Culture Change
- IS Change Program
- Change Management
- Capability Building
- Knowledge Management

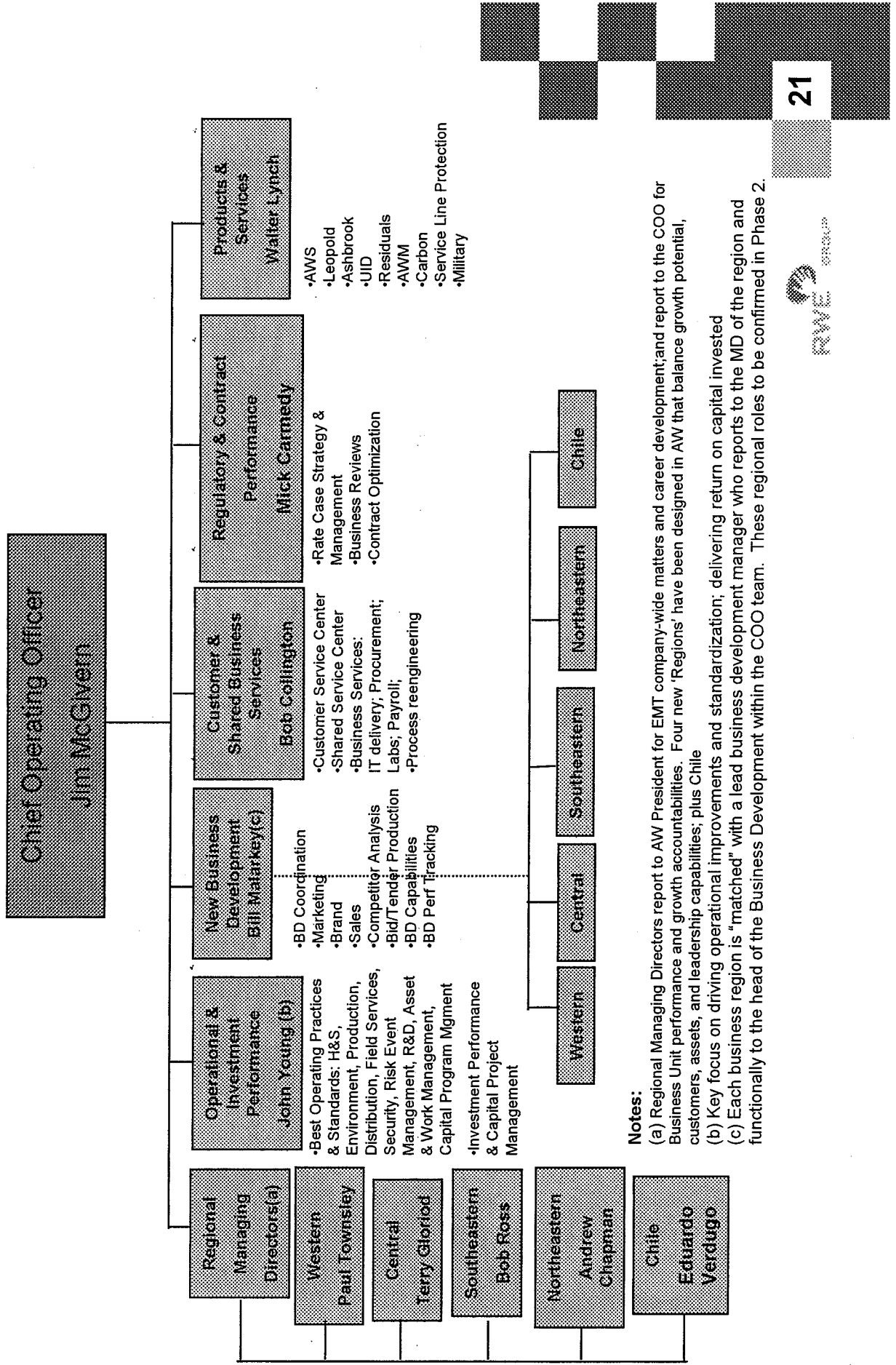
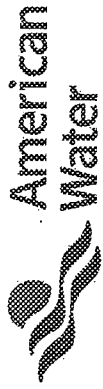
- Performance
- Growth
- Stakeholder Mgmt

\* Denotes member of the AW Board



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# The New Structure: Chief Operating Officer Team and Key Accountabilities:



**Notes:**  
 (a) Regional Managing Directors report to AW President for EMT company-wide matters and career development; and report to the COO for Business Unit performance and growth accountabilities. Four new 'Regions' have been designed in AW that balance growth potential, customers, assets, and leadership capabilities; plus Chile  
 (b) Key focus on driving operational improvements and standardization; delivering return on capital invested  
 (c) Each business region is "matched" with a lead business development manager who reports to the MD of the region and functionally to the head of the Business Development within the COO team. These regional roles to be confirmed in Phase 2.

