

**KENTUCKY-AMERICAN WATER COMPANY**  
**CASE NO. 2015-00418**  
**COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION**

**Witness: Kevin N. Rogers / Donald J. Petry**

- 18.**
- a. Identify the amounts of incentive pay that are included in base year and forecasted labor. Describe the incentive pay plans and explain why such a plan is necessary and reasonable.
  - b. List each Kentucky-American employee who is eligible to participate in the incentive pay program.
  - c. State the level of incentive pay awarded to all individuals participating in the program for the previous five calendar years compared to the level of incentive pay available to each participant in the forecasted period.
  - d. For the previous five calendar years, provide a comparison of the incentive pay that was budgeted to the actual amounts paid in each year. Include detailed explanations for any variance between the budgeted and actual payments.

**Response:**

- a. The amounts of incentive pay in the base year and performance pay in the forecasted year are \$339,017 and \$318,405, respectively.

To promote meeting company objectives, the Company offers compensation based on individual and company performance to eligible employees under American Water's Annual Performance Plan (APP) and Long Term Performance Plan (LTPP).

The Company's performance compensation plans contain tangible goals that are designed to do several things. First, they measure and reward employees for performance based on delivering clean, safe, reliable and affordable water service and providing good customer service when doing so. The operational components measure performance that can most directly influence customer satisfaction, health and safety, environmental performance, and operational efficiency. Customers derive a direct benefit from our focus on these key measures in the plan. Further, well-grounded financial measures keep the organization focused on improved performance at all levels of the organization, particularly in increasing efficiency, decreasing waste, and boosting overall productivity. The Company's compensation is not only a means of focusing its employees on the organization's goals, but also a means of measuring attainment of those goals.

A financially healthy utility focused on efficiency and customer satisfaction is able to attract the capital investments necessary to provide safe and reliable service and to maintain the technological expertise necessary to operate the company and comply with increasing water quality standards. A financially healthy utility is very much in the interest of KAWC's customers, as it helps ensure KAWC the ability to provide safe and reliable service at the lowest reasonable cost.

Most important, the evidence in this case demonstrates that, even with performance payments, our overall non-bargaining unit compensation is below the 50th percentile ranking. Consequently, all of our performance plans are necessary to attract and retain employees. Furthermore, the LTPP component is vital to retain employees who might otherwise seek higher compensation elsewhere but who are provided an incentive to remain with the Company. The retention of a highly trained and demonstrably effective and productive workforce is, without question, in the best interest of our customers.

Please see the attached 2015 annual incentive plan brochure. The Company will supplement this response with the 2016 annual performance plan brochure once it is completed.

- b. Please refer to Workpaper 3-1.
- c. Please see the attached confidential information regarding individual compensation for KAW employees by title. KAW is requesting Confidential Treatment of the individual information with these responses. The Company will provide copies of the information to all parties in this case upon execution of an appropriate confidentiality agreement.
- d. Please see the attached schedules.

#### **Supplemental Response 4-15-16**

- a. See the attached 2016 Annual Performance Plan brochure.

#### **Supplemental Response 6-29-16**

- a. See the attached 2016 Annual Performance Plan brochure. The brochure contains confidential information and is subject to a petition for confidential protection.

**ATTACHMENT TO KAW\_R\_PSCDR1\_NUM018\_SUPP\_062916  
FILED UNDER SEAL PURSUANT TO PETITION FOR  
CONFIDENTIAL TREATMENT FILED ON JUNE 29, 2016**