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CUSTOMER-FIRST REWARDS: NEW PERFORMANCE DIRECTIONS FOR PUBLIC POWER

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Chelan County PUD, located in Wenatchee, Washington, is the second largest publicly owned non-federal hydroelectric utility in the United States. With more than \$20 million per year invested in total compensation for its salaried employees, Chelan County PUD is committed to its customer-owners to ensure that its total compensation program supports District business strategies and goals. During an early compensation strategy session, General Manager Charlie Hosken said, "This new compensation plan links both customers and employees—that's why this new compensation solution is so important."

Chelan County PUD selected an employee team that was accountable for designing, communicating, and implementing its new customer-focused compensation plan. The plan's objective is to maximize the benefit to customer-owners while enhancing its ability to attract and retain qualified and valuable employees. The key elements of the new compensation program are:

- Performance management: Customer-focused individual goals and competencies;
- Base pay: Linked to goal performance, value added, and labor market;
- Customer Value pay: Variable pay tied to the customer-focused District Goals; and
- Recognition: Recognizing contributions that are above and beyond the call of duty.

Four critical success factors and 14 supporting customer-focused goals are at the heart of the compensation program for 2003. These 14 critical success factors are customer service, responsiveness to community, environmental stewardship, and operational excellence. (See the Exhibit.)

These goals represent the District's commitment to its customer-owners. The goals are publicized to show how the organization is performing on an ongoing basis and give everyone a clear and accurate focus on why the organization exists, and what it must do to meet the expectations of its customer-owners.

PERFORMANCE MANAGEMENT

Each salaried employee has a specific performance plan developed with his/her direct supervisor. The goals for these plans cascade from the District goals related to customer service, responsiveness to community, environmental stewardship, and operational excellence. Performance management focuses on answering the question, "How does your performance support these key customer-focused District goals?" The results are directly tied to the annual review of base pay.

In addition, base pay is influenced by the salaried employee's ability to learn and apply the most important competencies to serve the District's customers. These competencies are customer focus, results orientation, prudent business judgment, flexibility/adaptability, leadership/advocacy, communications/teamwork, financial awareness, and technical expertise.

BASE PAY

The District's base pay program has changed from one that used 13 grades to one that uses four bands anchored in the external labor market. The bands facilitate career growth, flexibility, and the acquisition and application of key competencies that focus the District's success in customer terms. They also provide excellent technical employees the ability to advance in the organization on a parallel path with those that advance in a supervisory capacity. Each band has descriptors that define the level of competencies expected and the competitive labor market for jobs.

Base pay increases are based on an employee's goal performance, applying competencies to achieve desired customer results. It provides a performance-based compensation outcome that combines with the variable customer value pay to generate attractive total cash compensation potential.

Managers are required to administer base pay increases within a specific annual budget without exceptions. They are fully accountable for managing the PUD's human resource dollars and for making the key pay decisions that put the pay dollars where they gain the most benefit for the District's customer-owners.

CUSTOMER VALUE PAY

Part of the District's commitment to "Go the extra mile for customers" is illustrated in its variable pay plan called customer value pay. It is based on the 14 customer-focused goals and funded only if stretch performance is actually demonstrated during the performance period. Awards are lump sum and do not add to base pay so they do not subsequently increase the fixed cost of human resources. This means employees must re-earn the awards annually for achieving key customer-owner goals.

The District's promise to its customers through 2005 is that if the District increases electric rates there will be no awards under customer value pay during the year of the increase. This promise must be kept for employees to have the chance to earn awards. Customer value pay is being tested in 2003, with the initial opportunity for earnings beginning in 2004.

One of the unique features of this compensation program is that funding for customer value pay may go negative starting in 2005 if few or no District goals are achieved. This reduces the base pay increase budget. At Chelan County PUD, this new compensation plan is serious about paying for performance and keeping its commitment to customer-owners.

BARGAINING UNIT OPPORTUNITY

One of the desired outcomes of this compensation program is to align all employees around the 14 customer-focused goals. To this end the District has offered bargaining unit employees the opportunity to participate in the upside opportunity provided in customer value pay. The plan has the same District goals and promise of no electric rate increases, but it will not have the downside risk so it will have a smaller upside opportunity.

RECOGNITION

The District has implemented a recognition plan that provides team and individual recognition for demonstrated performance "above and beyond" the call of duty. All employees are eligible and the program provides a documented process for giving recognition. This plan will be directly linked to adding value to the organization expressed in customer terms.

CONCLUSION

Chelan County PUD believes that public electric utilities exist to serve their customer-owners. Yet public power has been somewhat slow to design and implement pay and reward programs that link employees and customers closely. This program is part of the District's efforts to align its employees with customer interests. In this program, employees "win" only when customers "win."

Exhibit: Goals

GOAL CATEGORY	SPECIFIC 2003 GOALS
Customer Service	Reduce duration of customer power outages. Reduce frequency that customers are out of power.
Responsiveness to Community	Provide fiber optics to the community. Continue the quality of the PUD park experience while balancing cost and benefit with existing equipment capabilities. Provide quality, reliable domestic drinking water to Chelan County.
Environmental Stewardship	Protect fish at optimum cost while addressing appropriate water quality standards at Rocky Reach Dam. Same goal as above for Rock Island Dam. Make progress on relicensing Rocky Reach Dam. Develop and execute an implementation plan for new Lake Chelan license in accordance with licensing agreement. Complete construction of Juvenile Fish Bypass Facility at Rocky Reach Dam.
Operational Excellence	Complete rehabilitation of Turbine Unit C-1 at Rocky Reach Dam. Reduce the distribution system's cost per retail kilowatt hour delivered. Schedule generating outages when it makes the most sense. Improve safety.

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