

October 17, 2001

G. Cheryl Blundon
Board Secretary
Board of Commissioners of Public Utilities
Suite E210, Prince Charles Building
120 Torbay Road
P.O. Box 21040
St. John's, NF
A1A 5B2

Dear Ms. Blundon:

Re: Newfoundland & Labrador Hydro's 2001 General Rate Application

Attached please find an original plus seventeen (17) copies of documentation to be filed in response to an undertaking to provide information on the Incentive Plan found in the transcript of October 5th, p. 35, lines 78-94.

Yours truly,

Newfoundland and Labrador Hydro

Maureen P. Greene, Q.C.
Vice-President & General Counsel

MPG/jc

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1 **INCENTIVE PLAN**

2
3 **INTRODUCTION**

4 During 2000, the Compensation Committee of the Board of Directors of
5 Newfoundland and Labrador Hydro considered the introduction of a performance
6 based incentive plan for members of the Executive and Senior Management.
7 Hay Management Consultants, a human resources consulting group, was
8 retained to assist with the development of an incentive plan similar in concept to
9 those in place at other Atlantic Canadian electric utilities. In December 2000,
10 the Board of Directors, on the recommendation of the Compensation Committee,
11 approved the implementation in 2001 of a pilot project for the five members of the
12 Executive and twelve Directors (heads of departments). The plan is composed
13 of both corporate performance objectives and individual or departmental
14 performance objectives.

15
16 **COST AND REGULATORY TREATMENT**

17 The total 2001 compensation for the seventeen Hydro employees participating in
18 the incentive plan is approximately \$1.9 million. Based on the target payout of
19 the plan, which is 6% of salary, the total payment under the plan would be
20 \$114,000. There is also an opportunity to earn more than the target, if higher
21 than the targeted performance is achieved. The cap for this "opportunity" is 9%,
22 so that the maximum possible payout is \$171,000, if all the employees
23 participating in the plan achieve higher than targeted outcomes in all areas.

24
25 As noted above, the Board of Directors approved the implementation of the
26 incentive plan as a pilot project in 2001. Depending on the experience with this
27 type of plan, it may be modified or extended to other members of management in
28 future years. As it is a pilot only, the cost of the incentive plan is not included as
29 a regulated expense in the 2002 cost of service.

1

2 **2001 CORPORATE PERFORMANCE OBJECTIVES**

3 Four areas of responsibility were selected for the corporate performance
4 objectives or targets for the 2001 pilot: financial performance; improved system
5 reliability; safety; and strategic planning. Expected outcomes and standards of
6 performance were established for each of the selected objectives. If
7 performance is achieved as targeted in each of these areas on a corporate basis,
8 then the employees participating in the incentive plan will receive a payment
9 based on the level of achievement of each objective.

10

11 The following standards were established for each of the four corporate areas of
12 responsibility chosen for overall corporate performance in 2001:

13

14 1. Financial Performance – The target established was achievement of a
15 certain level of net income on regulated activities i.e. the interest cover
16 forecast of 1.16 on a corporate regulated basis.

17

18 2. System Reliability – The measure chosen to determine the improvement
19 in system reliability was based on an improvement in the overall corporate
20 reliability statistics as determined by CEA benchmarks: SAIDI (the
21 average duration of interruptions per delivery point), and SAIFI (the
22 average number of interruptions per delivery point). As well, the number
23 of underfrequency trips was selected a measure of performance.

24

25 On SAIDI, the target selected of 91.16 for 2001 is the actual performance
26 for 1999, one of the better years in comparison to the average of the last
27 five years. The threshold of 112.13 is based upon 90% of Hydro's
28 average over the last five years, while the opportunity of 68.85 is a
29 targeted improvement of 25% over 1999 performance. The number of
30 underfrequency trips target of 10 relates to the total target for 2000 of ten

1 (including the number of 8 affecting Newfoundland Power as agreed with
2 Newfoundland Power) and the threshold of 12 relates to the average over
3 the past five years for Hydro. On SAIFI the target of 2.32 is tied to Hydro's
4 performance in 1999, the threshold of 3.20 is 90% of the 5 year average
5 and the opportunity is 1.79, a 25% improvement over 1999.

6
7 3. Safety - The performance standard for this corporate objective for 2001
8 is the implementation of the revised safety plan. A number of elements (8)
9 have been assigned for complete implementation in this year on an overall
10 corporate basis.

11
12 4. Strategic Planning - The standard for this objective is the successful
13 rollout of this process to all employees.

14
15 Where possible, objective targets were established and objective
16 measures of performance for the targets were determined. In certain
17 cases (e.g. strategic planning process) this was not possible and some
18 element of judgment will be required in evaluating performance.

19
20 The percentage of an individual's performance payment associated with
21 corporate performance is 60% for Vice-Presidents and 40% for Directors.
22 Thus, for example, 40% of the total incentive payment that a Director
23 would receive would be based on corporate performance. Also, a
24 weighting was assigned to each of the four corporate objectives for 2001.
25 Financial performance and system reliability were each assigned a
26 weighting of 30% of the overall corporate area, while the safety and
27 strategic planning objectives were assigned a weighting of 20% each.
28

1 **2001 DIVISIONAL OR DEPARTMENTAL PERFORMANCE OBJECTIVES**

2 Divisional or departmental performance areas were also selected for 2001 for
3 each of the participants in the incentive plan and standards of performance
4 were identified for these areas. The weighting for the departmental or
5 divisional areas of responsibility is 60% for the Directors and 40% for the
6 Vice-Presidents. The areas of responsibility selected for evaluation relate to
7 the principal areas of responsibility of each division or department and their
8 support of the overall corporate strategic objectives for the year. Thus, each
9 employee will have some unique targets, while certain common ones were
10 also assigned. For example, each employee participating in the plan was
11 assigned the target to control his/her controllable operating expenses. If the
12 operating expenses for the department are within the budget, the objective is
13 met. If controllable operating expenses come in less than the approved
14 budget for the year, by at least 5%, then the employee is eligible to receive a
15 higher payment. No payment will be made if operating expenses for the
16 department exceed the approved budget.

17
18
19 **EVALUATION AND PAYMENT**

20 At the end of 2001, the individual employee's performance in relation to the
21 set objectives as well as the Corporation's performance, will be reviewed by
22 the President and Chief Executive Officer and the Board of Directors. The
23 actual incentive payment for each of the individuals will depend on how the
24 Corporation has performed with respect to the corporate targets, as well as
25 how the individual has performed in achieving the objectives set for his/her
26 department or division for the year.

27
28 Each participant in the incentive plan for 2001 has a performance contract
29 which sets the objectives, the measures of performance and the payouts for
30 achieving different levels of performance. Attached is a sample performance

1 contract which indicates for a Director how the performance payment is
2 determined. For example, the chart attached for an operating Director would
3 indicate that with a base salary of \$95,000 the target bonus maximum
4 payment would be 6% or \$5,700 provided that the agreed upon standards
5 had been met for the corporate objectives (40% of the incentive payment) and
6 the departmental or personal objectives (60%) had been met. Thus, for
7 example, if the overall target for corporate financial performance were
8 achieved, this Director would receive 6%, being the target amount for this
9 achievement, times the weighting assigned for this financial performance
10 measure of 30%, times the weighting assigned for the corporate area of 40%
11 for a payment for corporate financial performance of \$684. Similarly, with
12 respect to the departmental objectives, if the system reliability improvement
13 targets were met by the department, the payment would be 6% times the
14 salary times the weighting of 25% assigned to this in the departmental area,
15 times 60% being the departmental objectives weighting, for a payment for this
16 particular measure of \$855. If all the targets are met for both the corporate
17 and departmental objectives, the payment would be \$5,700. If all targets are
18 exceeded and the higher standards are met then the maximum payout would
19 be \$8,555 based on this particular performance contract.
20



NEWFOUNDLAND AND LABRADOR HYDRO
SAMPLE PERFORMANCE CONTRACT

INCUMBENT INFORMATION:

Incumbent Approval: _____
 Name _____ Date _____

Supervisor: _____
 Name _____ Date _____

Period:	January 1, 2001 – December 31, 2001
Position:	<u>Operations Director</u>
Incumbent:	
Salary:	\$_95,000_____

Performance Area	Weight %	Major Areas of Responsibility	Indication of Successful Performance	Weight %	Measure	Performance Levels and Payments								
						Threshold % 3.00			Target % 6.00			Opportunity % 9.00		
						Performance Level	Payment \$	Salary %	Performance Level	Payment \$	Salary %	Performance Level	Payment \$	Salary %
CORPORATE	40.00	Financial Performance	Net Income - Regulated	30%	Interest Cover – Excluding Recall	1.10	342.00	0.36	1.16	684.00	0.72	1.21	1026.00	1.08
		System Reliability	Improvement	10%	No. of Underfrequency Trips	12	114.00	0.12	10	228.00	0.24	8	342.00	0.36
							114.00	0.12		228.00	0.24		342.00	0.36
							114.00	0.12		228.00	0.24		342.00	0.36
			10%	SAIDI ¹	112.13		91.16		68.85					
			10%	SAIFI ²	3.20		2.32		1.79					
Safety	Implement new safety plan	20%	No. of segments completed by Dec 31.	6	228.00	0.24	8	456.00	0.48	10	684.00	0.72		
Planning	Strategic Planning process	20%	CEO Judgment	Satisfactory	228.00	0.24	Good	456.00	0.48	Very Good	684.00	0.72		
DEPARTMENT	60.00	Safety	Implementation	25%	Segments Completed	6	427.50	0.45	8	855.00	0.9	10	1282.50	1.35
		Management	Controllable expenses	15%	% of Operating Budget		0	0	Budget	513.00	0.54	-5%	769.50	0.81
							0	0	Budget	342.00	0.36		513.00	0.54
			10%	% of Capital Budget			Budget					-5%		
		System Reliability	Improvement	25%	Develop significant economic performance improvements	3	427.50	0.45	4	855.00	0.9	5	1282.50	1.35
Environment	Implement ISO 14001	25%	Develop key objectives and program	January 31	427.50	0.45	December 31	855.00	0.9	November 30	1282.50	1.35		
TOTALS	100.00													
							2422.50	2.55		5700.00	6		8550.00	9

NOTE: ¹ Duration of Interruptions/Delivery Point
² Average number of Interruptions/Delivery Point