

1 Q. On page 19, lines 21 to 23 of Mr. Wells' Pre-filed Evidence, he references a
2 process for incorporating strategic planning in all aspects of its business
3 operations and throughout all levels of the Corporation. Are employee
4 bonuses an element of this plan? Please provide details of this plan,
5 including the performance measures.
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7 A. General employee bonuses are not an element of this plan. As referenced
8 in documentation filed in response to an undertaking during the 2001
9 General Rate Hearing, a performance based incentive plan for members of
10 the Executive and Senior Management was introduced in 2001 as a pilot
11 project. This incentive plan has continued to date. The plan for 2001 and
12 2002 included both corporate performance objectives and individual or
13 departmental performance objectives. The plan for 2003 covers corporate
14 performance.
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16 Payouts have been set at 6% of salary for achievement of target, 3% for
17 achievement at the threshold limit and 9% for achievement at the opportunity
18 level. The actual total payout under the incentive plan in 2002 was \$91,670
19 and in 2001 was \$119,500. The maximum payout possible in 2002 if the
20 opportunity measure had been achieved in all areas was approximately
21 \$203,000 and in 2001 was \$171,000. The forecast cost of the incentive plan
22 is not included in 2004 Test Year Revenue Requirement.
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24 **2002 PERFORMANCE OBJECTIVES**

25 Four areas of responsibility were selected for the corporate performance
26 objectives or targets for the 2002 plan: financial performance; improved
27 system reliability; safety; and strategic planning. Expected outcomes and
28 standards of performance were established for each of the selected

objectives. If performance was achieved as targeted in each of these areas on a corporate basis, then the employees participating in the incentive plan received a payment based on the level of achievement of each objective.

The following standards were established for each of the four corporate areas of responsibility chosen for overall corporate performance in 2002:

1. Financial Performance – The target established was achievement of a certain level of net income on regulated activities.
2. System Reliability – The measure chosen to determine the improvement in system reliability was based on an improvement in the overall corporate reliability statistics as determined by CEA benchmarks: SAIDI (the average duration of interruptions per delivery point), and SAIFI (the average number of interruptions per delivery point). As well, the number of underfrequency trips was selected as a measure of performance.
3. Safety – The performance standard for this corporate objective for 2002 was the implementation of the remaining elements of the revised safety plan not implemented in 2001.
4. Strategic Planning – The standard for this objective was incorporation of corporate strategic planning into departmental planning.

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

1 The percentage of an individual's performance payment associated with
2 corporate performance was 60% for Vice-Presidents, 40% for Directors and
3 30% for Regional Managers. Thus, for example, 40% of the total incentive
4 payment that a Director received was based on corporate performance.
5 Also, a weighting was assigned to each of the four corporate objectives for
6 2002. Financial performance and system reliability were each assigned a
7 weighting of 30% of the overall corporate area, while the safety and strategic
8 planning objectives were assigned a weighting of 20% each.

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10 Divisional or departmental performance areas were also selected for 2002 for
11 each of the participants in the incentive plan and standards of performance
12 were identified for these areas. The weighting for the departmental or
13 divisional areas of responsibility was 60% for the Directors, 40% for the Vice-
14 Presidents and 70% for the Regional Managers. The areas of responsibility
15 selected for evaluation relate to the principal areas of responsibility of each
16 division or department and their support of the overall corporate strategic
17 objectives for the year.

18
19 At the end of the year, the individual employee's performance in relation to
20 the set objectives as well as the Corporation's performance, was reviewed by
21 the President and Chief Executive Officer and the Board of Directors. The
22 actual incentive payment for each of the individuals depended on how the
23 Corporation performed with respect to the corporate targets, as well as how
24 the individual performed in achieving the objectives set for his/her
25 department or division for the year.

2003 CORPORATE PERFORMANCE OBJECTIVES

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28 For 2003 the Board of Directors has approved five corporate areas of
29 performance to be included in the incentive plan. The five areas are: finance,

1 reliability, safety, environment and customer service. The specific
2 performance measures for each of these areas is as follows:

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- 4 1. Finance – The measure is related to the income on regulated
5 activities.
 - 6 2. Reliability – Specific measures have been established with respect to
7 reliability based on Hydro's past performance for SAIFI and SAIDI and
8 the number of underfrequency trips.
 - 9 3. Safety – The measure is the All Injury Frequency Rate with the target
10 being Hydro's 2002 performance.
 - 11 4. Environment – The measure is an improvement in the number of ISO
12 exceptions or observations per environmental audit.
 - 13 5. Customer Service – The target measure has been tied to the 2002
14 result on the Customer Satisfaction Index.
- 15

16 The payouts have not changed, that is the target payout of all targets are
17 achieved at 6% of salary, the opportunity payout is 9% of salary and the
18 threshold is 3% of salary.