

- 1 **Q. Further to CA-NP-199, the Hay Group’s letter to Mr. Gary Smith, President and**
2 **C.E.O. dated February 16, 2015 (Attachment A, p. 24 of 36, at p. 24) proposes a**
3 **number of changes to the Company’s executive compensation practices including**
4 **“key changes” to STI Targets, changes to the LTI program and changes to the**
5 **Fortis share ownership policy. Please detail all changes made or intended to be**
6 **made to the Company’s executive compensation practices following this letter.**
7
- 8 A. The short-term incentive targets as a percentage of base pay were changed in 2015 as
9 recommended in the letter dated February 16, 2015. Please see the response to Request
10 for Information PUB-NP-078 for further information concerning the history of short-term
11 incentive plan targets at Newfoundland Power.
12
- 13 Long-term incentive program changes were made in February 2016 as recommended in
14 the January 18, 2016 correspondence from Hay Group Limited which is provided as
15 Attachment A to this response.
16
- 17 Long-term incentives paid to Newfoundland Power’s Executives include options to
18 purchase common shares of Fortis Inc. (“Fortis”) and performance and restricted share
19 units which reflect the value of common shares of Fortis. The cost of all long-term
20 incentives paid to Newfoundland Power’s Executives are treated as non-regulated
21 expenses and are not included in the setting of customer rates. These costs are, in effect,
22 borne by Fortis.
23
- 24 To be eligible to receive long-term incentives, Newfoundland Power’s Executives are
25 required to own a minimum number of Fortis common shares. Effective January 1, 2015,
26 the minimum eligibility requirement for Newfoundland Power’s President & Chief
27 Executive Officer is Fortis common shareholdings equal to 2x annual base salary. For all
28 other Newfoundland Power Executives, the minimum eligibility requirement is Fortis
29 common shareholdings equal to 1x annual base salary.

Hay Group Ltd. Correspondence



Hay Group Limited
121 King Street West
Suite 700
Toronto, ON M5H 3X7
Canada

tel +1.416.868.1371
fax +1.416.868.6871

www.haygroup.com/ca

January 18, 2016

Mr. Gary Smith
President and Chief Executive Officer
Newfoundland Power
55 Kenmount Road
P.O. Box 8910
St. John's, NL A1B 3P6

Dear Mr. Smith,

RE: 2016 Long-Term Incentive ("LTI") Policy

As part of the phase-in approach following the 2014 executive compensation review, Hay Group Ltd. ("Hay Group") conducted a subsequent review in 2015 to validate the target LTI compensation values for your executives. Our recommendations have taken into account the following criteria:

- Newfoundland Power's policy to target executive compensation at median values of the Commercial Industrial market;
- Reinforcing a strong pay for performance culture and focusing on the long-term success of the organization; and
- Prevailing economic considerations

The table below outlines the changes to target LTI compensation values (as a % of Base Salary) under the 2016 LTI Policy.

Hay Points	2015 Policy	2016 Policy
2001 – 2400	75	90
1801 – 2000	60	70
1701 – 1800	40	60
1500 – 1700	40	30
1401 – 1499	35	40

Mr. G. Smith
Newfoundland Power

Other elements of the LTI program shall remain unchanged and these target compensation values will be allocated between various LTI components in fixed proportions, as set out in the 2015 Executive Compensation Policy.

	PSUs	RSUs	Stock Options
Weighting	50%	25%	25%

Please do not hesitate to contact me if you would like to discuss the contents of this letter.

Sincerely,
Hay Group Limited



Christopher A. Chen, LLB
National Director
Executive Compensation and Reward