

1 **Q. Please provide the details of all Newfoundland Power incentive or bonus plans**
 2 **including the eligible participants, the criteria for payment and the amounts paid in**
 3 **2013 and 2014.**

4
 5 **A. A. Executive and Directors**

6 Only Newfoundland Power’s Executives and Directors participate in the Company’s
 7 Short-term Incentive (“STI”) plan. The underlying rationale for the STI plan is to incent
 8 senior management performance by making a significant portion of total compensation
 9 dependent on performance.

10
 11 ***Short-term Incentive Plan***

12 The STI plan provides for annual cash payments to Executives and Directors, with the
 13 amount of each payment determined through an annual assessment of both corporate and
 14 individual performance, based on a percentage of salary. Before any payout occurs, the
 15 Company’s return on equity must reach a minimum threshold level.

16
 17 Payouts are established as percentages of base salary (“target percentage payouts”). The
 18 current target percentage payouts are (i) 50% of base salary for the President & Chief
 19 Executive Officer; (ii) 40% of base salary for other Executives; and (iii) 15% of base
 20 salary for Directors.

21
 22 Exceeding targets results in payouts to a maximum of 1.5 times the target percentage
 23 payout. The Company’s Board of Directors may also award discretionary cash bonuses
 24 to Executives, resulting in total payments to a maximum of 2 times the target percentage
 25 payout. In accordance with the Board’s direction in Order No. P.U. 19 (2003), STI
 26 payouts in excess of 1 times the target percentage payouts are charged to non-regulated
 27 expenses.

28
 29 The relative weighting of corporate and individual performance targets reflects the ability
 30 of individual employees to influence corporate performance, as is shown in Table 1.

31
 32 **Table 1**
Relative Weightings of Corporate and Individual Targets (%)

| | Corporate | Individual |
|-------------------------------------|------------------|-------------------|
| President & Chief Executive Officer | 70 | 30 |
| Vice-Presidents | 50 | 50 |
| Directors | 50 | 50 |

1 ***Corporate Performance Measures***

2 Assessments of corporate performance are based on the Company's performance relative
3 to weighted targets in respect of financial performance, system reliability, customer
4 service and safety. The targets and weightings are modified annually to reflect changes
5 in corporate focus and priority, and to encourage continual improvement.
6

7 A brief review of current corporate performance measures follows:
8

9 ***Controllable Operating Cost per Customer***

10 This measure is based on budgeted controllable operating expenses. Because such costs
11 are beyond the short-term control of management, inter-company charges, PUB
12 assessments, pension costs and retirement allowances are excluded from the target.
13

14 ***Earnings***

15 This measure represents corporate earnings as per the year-end audited financial
16 statements. The target is based on the Company's earnings budgeted for the year.
17

18 ***Duration of Outages (SAIDI)***

19 This measure represents the reliability of the power system in terms of the duration of
20 outages experienced by customers.
21

22 ***Customer Satisfaction***

23 This measure represents Newfoundland Power's customer satisfaction rating which is
24 obtained through independently conducted quarterly surveys of customers with respect to
25 the Company's service.
26

27 ***Regulatory Performance***

28 This measure is dependent on regulatory activity for the year. The quality, timeliness and
29 effectiveness of the regulatory filings are included in the assessment of regulatory
30 performance.
31

32 ***Safety (All Injury Frequency Rate)***

33 This measure is the number of preventable injuries per 200,000 hours of work and is a
34 combination of both the number of preventable medical aid and lost time injuries.¹

¹ A preventable injury must meet the following 3 criteria:

- (i) the injury must meet the Canadian Electricity Association definition for a Medical Aid Injury or Lost Time Injury;
- (ii) there must be a specific incident that occurred that can be identified as the cause of the injury; and
- (iii) the investigation of the incident must determine that there is a reasonable preventive measure that could have been in place to prevent occurrence of the injury.

Individual Performance Measures

In addition to corporate measures, the STI plan incorporates measures that are intended to encourage improvements in individual performance. These measures are aligned with the specific focus of the Executive or Director, and are designed to promote leadership in enhancing employee and corporate performance in specific areas of responsibility, thereby contributing to the overall performance of the Company. For example, an Executive or Director with responsibility for the Company’s capital program may have a target based on performance in that area.

Individual measures and weightings are adjusted annually to reflect corporate priorities.

STI Payouts

Table 2 provides total STI payouts for Executives and Directors and the maximum STI payable for the period 2012 to forecast 2017.

Table 2
STI Payouts 2012 to 2017F
(\$000s)

| Year | STI Payout | Maximum Payable ² |
|--------------------|------------------|------------------------------|
| 2012 | 932 | 1,249 |
| 2013 | 1,000 | 1,338 |
| 2014 | 976 | 1,259 |
| 2015F | 746 ⁴ | 1,361 |
| 2016F ³ | 764 ⁴ | 1,395 |
| 2017F ³ | 784 ⁴ | 1,430 |

B. Managerial Employees

Newfoundland Power’s other managerial employees do not participate in the Company’s STI plan. These employees are compensated through a pay-for-performance compensation system which includes both a salary progression component and an annual cash compensation component.

The Company’s pay-for-performance system is designed to encourage and reward employees based on their individual performance including technical competency, execution and self-development. The annual cash compensation is paid in the year to which the recognition of performance is attributable.

² Based on a maximum of 2 times the target percentage payout for Executives and 1.5 times the target percentage payout for Directors.

³ Assumes salary increase for 2016 and 2017 of 2.5%

⁴ 2015, 2016 and 2017F are based on achieving 100% of targets.

Pay-for-Performance

Table 3 provides the total annual cash compensation under the pay-for-performance system for managerial employees and the annual cash compensation as a percentage of managerial employees' base salaries for the period 2012 to forecast 2017.

Table 3
Annual Pay-for-Performance Payouts and
Payouts as a Percentage of Base Salaries
2012 to 2017F

| Year | Payout (\$000s) | Payout as % of Base Salaries |
|-------------|------------------------|-------------------------------------|
| 2012 | 815 | 3.86 |
| 2013 | 854 | 3.77 |
| 2014 | 829 | 3.78 |
| 2015 | 891 | 3.79 |
| 2016F | 913 | 3.79 |
| 2017F | 936 | 3.79 |

C. Unionized Employees

Newfoundland Power's unionized employees are not eligible to participate in the Company's STI plan or the Company's pay-for-performance compensation system.