

Q. For each year from 2004 to 2010 F, please provide details of any incentive plans or programs for NP employees: including the type of employees eligible to participate in the programs, the performance targets and criteria used, the amounts paid out (or forecast to be paid out, as the case may be) in each year, and the maximum payable (or forecast to be payable) under those programs in those years.

A. Only Newfoundland Power's Executives and Managers participate in the Company's incentive compensation program, known as the Short-term Incentive (STI) plan. The underlying rationale for the STI plan is to incent senior management performance by making a significant portion of total compensation dependent on performance.

Short-term Incentive Plan

The STI plan provides for annual cash payments to Executives and Managers, with the amount of each payment determined by way of an annual assessment of both corporate and individual performance and based on a percentage of salary. Before any payout can occur, the Company's return on equity must reach a minimum threshold level.

Payouts are established as percentages of base salary ("target percentage payouts"). The current target percentage payouts are: 40 per cent of base salary for the President & Chief Executive Officer; 30 per cent of base salary for other Executives; and 15 per cent of base salary for Managers.

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

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

Table 1
Relative Weightings of Corporate
and Individual Targets

	Corporate (%)	Individual (%)
President & Chief Executive Officer	75	25
Vice-Presidents	60	40
Managers	50	50

Corporate Performance Measures

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

A brief review of current corporate performance measures follows:

Controllable Operating Cost per Customer

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

Earnings

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

Duration of Outages (SAIDI)

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

Customer Satisfaction

Newfoundland Power's customer satisfaction rating is obtained through independently conducted quarterly surveys of customers with respect to the Company's service.

First Call Resolution

This measure represents the percentage of times a customer's request is resolved after only one call from the customer.

Safety (All Injury Frequency Rate)

This measure is the number of accidents per 200,000 hours of work. Accidents include both the number of medical aid and lost time injuries.

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 Manager, 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 Manager 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 Managers and the maximum STI payable for the period 2004 to forecast 2010.

Table 2
STI Payouts 2004 – 2010F
(\$000s)

Year	STI Payout	Maximum Payable¹
2010F ²	625 ³	1,153
2009F	607 ³	1,120
2008	688	1,019
2007	709	982
2006	625	920
2005	697	879
2004	572	781

¹ Based on a maximum of 2 times the target percentage payout for Executives and 1.5 times the target percentage payout for Managers.

² Assumes salary increase for 2010 of 3%.

³ 2009 and 2010 forecast STI payouts are based on achieving 100% of targets.