

1 **Q. Is the factor of earnings – being corporate earnings as per the Company’s year-end**  
2 **audits and financial statements – still a factor upon which customers bear the cost of**  
3 **compensation under Newfoundland Power’s Short-term Incentive Plan. If so,**  
4 **please explain why customers should pay for that as opposed to the shareholder. In**  
5 **answering, please provide any regulatory precedents which support this position.**  
6

7 A. As is indicated in the Company Evidence at page 3-1, “Sound financial management is  
8 critical to Newfoundland Power’s long-term ability to deliver safe, reliable electrical  
9 service to its customers on a least-cost basis. For this reason, the continued financial  
10 integrity of Newfoundland Power benefits both the Company and its customers.” The  
11 Company considers earnings to be a key component of sound financial management.  
12

13 Earnings, which are typically the result of efficient management of Company operations,  
14 have been a component of Newfoundland Power’s short-term incentive (“STI”) plan  
15 since 1997 (see Order No. P.U. 36 (1998-99) where the current compensation structure  
16 was first reviewed by the Board and found to be reasonable). In Order No. P.U. 19  
17 (2003), the Board again reviewed Newfoundland Power’s executive compensation  
18 arrangements and specifically agreed “...that customers do benefit in the long-term when  
19 efficiencies are achieved and agrees that the use of STI payouts is an appropriate means  
20 of encouraging such efficiencies. However, the Board recognizes that such efficiencies  
21 also benefit the shareholder and concludes that any such STI payouts in excess of 100%  
22 of budget should be paid by the shareholder.” (see page 96)  
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24 In Order No. P.U. 43 (2009) (Reasons for Decision), the Board again considered  
25 Newfoundland Power’s executive compensation arrangements, including its STI plan,  
26 and found them to be “...based on a previously approved approach, have been  
27 proportionally consistent over the last several years, and are supported by specific  
28 evidence from an expert witness.” (see page 37)  
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30 Sound financial management, including earning the return allowed by the Board, remains  
31 a critical component of Newfoundland Power’s least-cost service delivery to its  
32 customers. Recognition of this in an STI plan has accordingly been consistently included  
33 by the Board in Newfoundland Power’s cost of service.