

Reference: Section 2: Customer Operations

Q. Volume 1, page 2-38. Provide a detailed explanation of Newfoundland Power’s bonus or short-term incentive plans, including the eligible participants, the criteria for payments and the amounts paid in 2019, 2020 and forecast for 2021.

A. A. Executive and Directors

Only Newfoundland Power’s Executives and Directors participate in the Company’s 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 Directors, with the amount of each payment determined through an annual assessment of both corporate and individual performance, based on a percentage of salary. Before any payout occurs, 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: (i) 50% of base salary for the President & Chief Executive Officer; (ii) 35% or 40% of base salary for Vice Presidents; and (iii) 15% of base salary for Directors.

Based on performance, payouts may exceed target to a maximum of 2 times the target percentage payout. The Board of Directors reviews and approves all payouts for the Executive and the Executive reviews and approves all payouts for the Directors.

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. In accordance with Order No P.U. 18 (2016), 50% of the costs of the STI components for earnings and regulatory performance are also 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	70	30
Vice Presidents	70	30
Directors	50	50

1 ***Corporate Performance Measures***
2

3 Assessments of corporate performance are based on the Company’s performance relative
4 to weighted targets in respect of financial performance, safety, system reliability,
5 customer service and cost management. The targets and weightings are modified annually
6 to reflect changes in corporate focus and priority, and to encourage continual
7 improvement.
8

9 A brief review of current corporate performance measures follows.
10

11 ***Earnings***

12 Represents corporate earnings as per the year-end audited financial statements. The
13 target is based on the Company’s earnings budgeted for the year.
14

15 ***Cash Flow***

16 Represents cash flow from operating activities, before working capital adjustments. This
17 is a key financial metric used by credit rating agencies in assessing the Company’s credit
18 worthiness.
19

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

21 The number of injuries per 200,000 hours of work; a combination of both the number of
22 medical aid and lost time injuries.
23

24 ***Duration of Outages (SAIDI)***

25 Represents the reliability of the power system in terms of the duration of outages
26 experienced by customers.
27

28 ***Customer Satisfaction***

29 Represents Newfoundland Power’s customer satisfaction rating, which is obtained
30 through independently conducted quarterly surveys of customers with respect to the
31 Company’s service.
32

33 ***Controllable Operating Cost per Customer***

34 Based on budgeted controllable operating expenses. As some costs are beyond the short-
35 term control of management, inter-company charges, Board assessments, severances and
36 regulatory amortizations are excluded from the target.

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.¹

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

STI Payouts

Table 2 provides total STI payouts for Executives and Directors for 2019 to 2021F.

**Table 2:
STI Payouts 2019 to 2021F
(\$000s)**

Year	STI Payout ²
2019	1,014
2020	1,025
2021F	805 ³

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 in which the recognition of performance is attributable.

¹ See response to Request for Information PUB-NP-021 for sample 2021 STI individual performance targets for the President & CEO and the Director of St. John’s Region.

² The amounts included in STI payout reflect both regulated and non-regulated amounts. For 2021 forecast, the non-regulated amount is based on 50% of the component for earnings, as the forecast payout is based on achieving 100% of the targets.

³ Based on achieving 100% of targets.

1 ***Pay-for-Performance***

2
3 Table 3 provides the total annual cash compensation under the pay-for-performance
4 system for managerial employees and the annual cash compensation as a percentage of
5 managerial employees' base salaries for 2019 to 2021F.

**Table 3:
Annual Pay-for-Performance Payouts and
Payouts as a Percentage of Base Salaries
2019 to 2021F**

Year	Payout (\$000s)	Payout as % of Base Salaries
2019	962	3.9
2020	1,036	4.1
2021F	1,010	4.0

6 **C. Unionized Employees**

7
8 Newfoundland Power's unionized employees are not eligible to participate in the
9 Company's STI plan or the Company's pay-for-performance compensation system.