Q. Further to the response to PUB-NP-032:

a) Please explain what benefits do customers experience from the operation of Newfoundland Power's short-term incentive plan and explain why customers should bear any costs of the short-term incentive plan, particularly now given the significant increase in operating costs from 2023TY to 2026 forecast TY.

b) Please explain why SAIFI is not included in the corporate performance targets.

c) Please explain how the targets are chosen/established.

d) Please confirm that the determination as to whether the targets have been met are largely subjective.

e) Please provide a table including the corporate performance targets for 2022 and 2023, along with the actual results for each of the targets.

f) Newfoundland Power notes that before any payout occurs, the Company's ROE must reach a minimum threshold. Please provide the minimum threshold level for 2022 and 2023.

A. a) As detailed in the response to Request for Information PUB-NP-032, the Company's short-term incentive ("STI") plan is designed to motivate senior management to achieve strong annual business performance and to align the objectives of senior management with the strategic objectives of the Company. Strong performance benefits customers in various ways.

Corporate performance targets for reliability, customer satisfaction and controllable operating costs per customer have direct customer benefits. Achieving reliability targets relates to the effectiveness of the Company's response to outage events, with a focus on maintaining overall reliability for customers. Achieving customer satisfaction targets is a direct measure of the level of satisfaction customers have in the service Newfoundland Power provides. Management of controllable operating costs also directly benefits customers.

Safety performance targets include all injury frequency rate and quality leading indicators. These aim to protect the health and safety of the Company's employees, indirectly contributing to the reliable provision of service to customers.

Finally, financial and regulatory performance targets also benefit customers. Sound financial and regulatory performance, including earning the Company's allowed return, maintains Newfoundland Power's financial integrity and contributes to a sound credit rating. This translates into lower costs for customers and is consistent with the Company's least-cost delivery of service to customers.[1]

The Board has previously found the Company's STI plan to be reasonable, that the specific elements of the plan are within the purview of Newfoundland Power's management, and that it is not the role of the Board to substitute its judgment for that

[1] This has been previously recognized by the Board. In Order No. P.U. 18 (2016), page 43, lines 29 to 30, the Board noted that "*sound financial management, including earning the allowed return, is important to the ongoing financial strength of Newfoundland Power and translates into lower costs for customers.*"

of management, unless there is some compelling evidence to suggest that the targets or costs are unreasonable.[2]

The Board has also recognized that certain STI targets provide benefits for both ratepayers and shareholders. As such, the Board has ordered that the associated costs be shared.[3] Further, any STI payouts in excess of the target percentage payout are not recovered from customers.[4]

b) SAIDI performance reflects: (i) the number of interruptions that a customer experiences (i.e. SAIFI); and (ii) the average duration of the interruption. Therefore, SAIDI is impacted by both the condition of the electrical system and by the Company's operational responsiveness. For the purpose of its STI plan, the Company's corporate performance targets for reliability are assessed based on SAIDI, which encompasses both the frequency and duration of outages experienced by customers.

c) Corporate performance targets are set by the Company's Board of Directors. Corporate targets and weightings are reviewed annually and may be modified to reflect changes in corporate focus and priority. The corporate targets consistently focus on performance in the areas of safety, reliability and customer service, as well as financial and regulatory performance and operating cost management.

d) Corporate performance, which comprises 70% of executive STI, is assessed based on the Company's performance relative to weighted targets, which are approved by the Board of Directors. These corporate targets are largely objective. For example, for 2023 all corporate performance targets were objective, and in 2024 90% of corporate performance targets are objective.[5]

Individual performance, which comprises 30% of executive STI, is assessed against individual targets. These are approved annually by the Board of Directors and are aligned with the specific focus of the executive. Individual performance targets are largely subjective; however, objective criteria may be included.[6]

e) See Attachment A to the response to Request for Information PUB-NP-009.

f) The minimum return threshold for 2022 and 2023 was a regulated return on equity of 7.7% (achievement of approximately 90% of the regulated return on equity of 8.5%).

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2 See Order No. P.U. 18 (2016), page 43, lines 11 to 17.

3 In accordance with Orders No. P.U. 18 (2016) and P.U. 3 (2022), 50% of the costs of the STI components for earnings, regulatory performance and cash flow are also charged to non-regulated expenses.

4 See Order No. P.U. 19 (2003), page 96.

5 See Attachment A to the responses to Requests for Information PUB-NP-009 and PUB-NP-032.

6 For example, the individual performance targets for the President and Chief Executive Officer include a financial results target, which contains a minimum earnings threshold. See Attachment B to the response to Request for Information PUB-NP-032.