

1 **Q. For each year from 1998 to the present, please provide details of any incentive plans**
2 **or programs for NP employees including: the types of employees eligible to**
3 **participate in the programs, the performance targets and criteria used, the amounts**
4 **paid out in each year, and the maximum payable under those programs in those**
5 **years.**

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7 A. Since 1998, only Newfoundland Power's Executives and Managers have participated in
8 the Company's incentive compensation program, known as the Short-term Incentive
9 (STI) plan.

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11 The underlying rationale for the STI plan is to incent senior management performance by
12 making a significant portion of total compensation dependent on performance.

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14 ***Short-term Incentive Plan***

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

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21 Assessments of corporate performance are based on the Company's performance relative
22 to weighted targets in respect of controllable operating expenses, system reliability,
23 customer service and safety. For Executives, individual performance is determined with
24 reference to individual contribution to corporate objectives established by the Company's
25 Board of Directors. For Managers, individual performance is determined with reference
26 to individual contribution to corporate and/or departmental objectives established by the
27 Executive.

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29 The targets and weightings for incentive compensation are modified annually to reflect
30 changes in corporate focus and priority and to encourage continual improvement. Target
31 payouts are established as percentages of base salary ("target percentage payouts"). The
32 current target percentage payouts are: 35 per cent of base salary for the President & Chief
33 Executive Officer; 25 per cent of base salary for the other Executives; and 15 per cent of
34 base salary for Managers.

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36 For Executives, exceeding targets results in payouts to a maximum of 2 times the target
37 percentage payout. For Managers, the maximum payout is 1.5 times the target
38 percentage payout.

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40 The relative weighting of corporate and individual performance targets reflects the ability
41 of individual employees to influence corporate performance. For the President & Chief
42 Executive Officer, 75 per cent of the STI is based on corporate targets and 25 per cent is
43 based on individual targets.
44

Prior to 2002, 50 per cent of the STI of the other Executives was based on corporate targets and 50 per cent on individual targets. The weighting of STI targets for Managers prior to 2002 was 25 per cent corporate and 75 per cent individual. Commencing in 2002, the relative weightings of STI targets for the Executives other than the President & Chief Executive Officer, and for Managers, were modified to reflect a smaller senior management team and an increased focus on corporate objectives and the sharing of resources. The weightings for the Executives are now 60 per cent corporate and 40 per cent individual. For Managers, the split is 50 per cent corporate and 50 per cent individual.

Corporate Performance Targets

STI performance targets are designed to align the interests of all stakeholders, with an overall focus on the efficient delivery of service to customers. Since 1998, corporate STI objectives have remained essentially unchanged, with the focus remaining on controllable operating costs, system reliability, customer service and safety. However, as corporate priorities change, targets may vary. For example, while a reliability measure has been a consistent feature of the plan since 1998, there have been changes in the specific targets that reflect corporate expectations for continual improvement of the system. A brief review of corporate STI targets follows:

Controllable Operating Cost per Customer

The financial component of the target is based on the Company's performance in relation to budgeted controllable operating expenses. Operating costs such as taxes and assessments, pension costs, and retirement allowances are excluded from the target, as such costs are beyond the short-term control of employees. This target has been included in the STI plan every year from 1998 to 2002.

Earnings Per Share

This measure was added to the STI plan in 2002. The target is established with reference to the regulated rate of return on rate base.

Duration of Outages

From 1998 to 2001, the reliability target was based on the duration of outages (SAIDI), excluding outages due to loss of supply from Newfoundland and Labrador Hydro ("Hydro"). In 2002, the SAIDI measure was changed to include loss of supply from Hydro to encourage liaisons with Hydro that would influence improvement in that measure.

Frequency of Outages

A reliability target of outage frequency, including loss of supply from Hydro, was added to the STI plan for 2002.

Customer Satisfaction

Newfoundland Power's customer satisfaction rating is obtained through quarterly surveys of customers with respect to call centre telephone services, field services, cashier services, and general satisfaction with the Company's service. This target has been included in the STI plan every year from 1998 to 2002.

Safety

For 1998, a safety target was established for absolute numbers of accidents. In 1999, the measure was changed to the Disabling Injury Severity Rate, which measures productive time lost due to injury.

For 2000 and 2001, the safety target was amended to be consistent with measurements used by the Canadian Electricity Association ("CEA"). The All Injury/Illness Frequency Rate measures the number of accidents requiring a visit to a physician per 200,000 hours of work. The Injury Severity Rate measures the number of calendar days lost as a result of injury per 200,000 hours worked, and includes consideration of injury severity.

In the 2002, the safety target was the All Injury/Illness Frequency Rate.

Absenteeism

A target with respect to employee attendance was included in the 1998 STI plan. With the successful achievement of intended objectives, the target was eliminated from the plan the following year.

Individual Performance Targets

In addition to corporate objectives and targets, the STI plan incorporates targets 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, while an employee with responsibility for an area where safety is a key consideration may have a heavy weighting assigned to providing leadership in that area and enhancing the Company's safety performance.

Weightings associated with each measure are realigned annually to reflect the evolution of corporate priorities. In 1998, for example, a target relative to employee development was included in the individual performance measures for one Executive. Since that time, the use of this measure has expanded each year, reflecting an increased emphasis on the development of the skills and experience of the Company's workforce. In 2002, the

individual targets of each Executive include an employee development measure, weighted at between two and four times the value of the 1998 measure.

STI Payouts

Table 1 below provides the total of STI payouts to Executives and Managers and the maximum STI payable for the period 1998 to 2001, as well as a forecast for 2002.

Table 1 STI Payouts 1998 –2002F		
Year	Actual STI Payout (\$)	Maximum Payable (\$)
2002F ¹	646,500	833,150
2001	734,265	796,592
2000	591,189	604,950
1999	447,000	551,141
1998	346,400	435,720

¹ Forecast STI payouts for 2002 are based on 150% of target payout percentages for Executives and 125% for Managers.