

EB-2005-0350
Tab 6
Schedule 6-5

Employee Incentive Plan Expenses

1. Description

An incentive program is provided to management and executive staff provided they meet the performance measures outlined in section 2. The executive would receive a % of the base salary while the management staff would get a fixed dollar amount.

2. Performance Measures

In order to receive an incentive there are a number of measures that must be met. The measures are the following;

- Meet the regulated return on equity.
- Not exceed operation and maintenance expenses.
- Not exceed capital budgets.
- Meet service quality targets.
- Strong health and safety record.
- There are also some individual targets.

All targets are considered to be for the benefit of the rate payers. Meeting the targets of net income operation, maintenance expense and capital expenditures will ensure that Chatham-Kent Hydro is providing a safe and reliable distribution system. By having a reasonable net income this will ensure that money can be reinvested into the system while ensuring borrowing costs will be lower.

The service quality targets are to ensure that customers receive service that is at or exceeds the OEB standards.

Health and safety is very important to customers as well. Included in health and safety are environmental targets. By providing the services with safe standards is of value to the customers.

The personal targets will ensure that the employees will be current in their education and training. Better qualified staff will be able to provide better service to the customers.

3. Annual Costs

All costs, in CK H's opinion, are recoverable by rate payers.

EB-2005-0350
IR from VECC

Question #5

Reference: Tab 6, Schedule 6-5

- a) What is the amount of Employee Incentive Plan expense included in the proposed 2006 Revenue Requirement?
- b) Must all measures outlined in Schedule 6-5 be met in order for employees to receive the incentive payment? If not, and payment is pro-rated based on meeting some of the measures, how much weighting is attached to “Meet the regulated return on equity”?

Response:

- a) The 2006 Revenue Requirement for the incentive program is;

Number of employees	6	Tab 6, Schedule 6-4, p 1 of 3
Average 2004 Incentive	\$3,431	Tab 6, Schedule 6-4, p 2 of 3
Total	\$20,586	Employees times average

- b) Each target must be met separately.

The percentage of incentive that relates to “Meet the regulated return on equity” is 30%. By meeting the regulated return there is a benefit to the customers as this will ensure money can be invested into the system while ensuring borrowing costs will be lower. By keeping the borrowing and debt costs down this will reduce the costs to the customers which is a benefit to them. This is becoming much more important during the next few years when the capital requirements of C-K Hydro and all LDCs will be much higher due to the regulatory requirements for investments in wholesale metering and smart metering investments.