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December 17, 2020

Delivered by Email and RESS

Ms. Christine Long
Registrar
Ontario Energy Board
2300 Yonge Street, Suite 2701
Toronto, ON M4P 1E4

Dear Ms. Long:

**Re: OEB File No. EB-2020-0059
Waterloo North Hydro Inc. 2021 Cost of Service Application
Filing of Documents Pursuant to Board Decision**

Pursuant to the Board's Decision on Confidentiality dated December 15, 2020, please find attached the following documents that are placed on the public record in their entirety:

- Executive Incentive Program Overview
- Waterloo North Hydro Balanced Scorecard for 2016
- Executive Total Compensation Salary Review
- Executive Incentive Program S.M.A.R.T. Objective Guideline
- Tool with Example

Yours very truly,

BORDEN LADNER GERVAIS LLP

Per:

A handwritten signature in black ink, appearing to read 'Flora Ho', is written over a light blue horizontal line.

Flora Ho
/Encl.

cc: Alyson Conrad, WNH
Albert Singh, WNH
Rene Gatién, WNH
Intervenors on record for EB-2020-0059



Executive Incentive Program Overview

Marjorie Richards & Associates Ltd.

marjorierichards33@gmail.com

905-517-0497



Waterloo North Hydro Inc.

+ Total Compensation

Elements of Total Cash

Base Salary Pay

- Performance evaluated based on what individual was hired for: expectations of the job, skills/ability at appropriate level, and meeting performance goals
- Fully competent individual at 100% Base Salary level

Incentive Pay

- Results-driven approach to Pay for Performance
- Lump sum opportunity, not compounded or added to salary (not guaranteed)
- Objectives align to BSC Annual Objectives
- Stretches individuals to achieve goals that advance the organization

Total Cash Compensation

- Combination of Base Salary Pay and Incentive (Variable) Pay Opportunity

+ Total Compensation

Incentive Pay

- Tied to Individual Objectives that:
 - Are strategic in nature, that grow and advance the organization
 - Protect and enhance Shareholder value
 - Mitigate operational and business risks
 - Deliver new and/or enhanced revenue streams
 - Encourage a high-performing culture
- Awarded for contribution to the success of the organization, through the individual's direct ability to impact business results
- Awarded for results over and above day-to-day activities and expectations

WATERLOO NORTH HYDRO'S 2016 BALANCED SCORECARD FOR ANNUAL OBJECTIVES

FINANCIAL PERFORMANCE

- 1. Return on Equity**
Achieve 8.2% ROE
- 2. Controllable Cost/Customer**
Achieve \$240.56 or less
- 3. Financial Ratios**
 - Maintain liquidity between 1.0-1.25
 - Maintain leverage less than 50%
- 4. Optimize CDM Revenue Opportunity**
 - Achieve 2016 CDM targets of 1.5% spend & 10.8% energy target by Q4
- 5. Growth**
 - Develop Business Cases resulting from 2015 Board Strategic Session to identify four potential opportunities
 - Identify resources required, expected results and financial outcomes
 - Present Business Cases to the Board for decision by June
 - Execute 2016 actionable items

Sustained Growth & Profitability

CUSTOMER & COMMUNITY FOCUS

- 1. Optimal Service Quality**
Maintain and/or exceed OEB requirements:
 - On Time Connections at 95%
 - First Contact Resolution at 99%
 - Appointments Met on Time at 95%
 - Telephone calls answered on time at 90%
 - Distribution rates within 10% regionally
- 2. Customer Satisfaction**
 - Conduct Survey in 2016
 - Maintain 96% Satisfaction Rating
 - Identify areas of improvement and develop action plans to continue to 'meet customer needs'
- 3. Protect WNH's Reputation & Enhance its Brand Equity**
 - Develop Strategic Communications Plan (Q1), attain Board approval (Q2) and implement early Q3
- 4. Successful Go Live of CIS System**
 - Implementation by year-end/on budget
 - Sufficient and quality live testing

Building WNH's Reputation

OPERATIONAL EFFECTIVENESS

- 1. Regulatory Compliance**
 - Update Rate Filing Statistics and information quarterly (financial, HR, performance metrics), to meet OEB expectations
- 2. Asset Management**
 - Analyze monthly budget against spend and adjust to contain costs against approved 2016 COS decision
- 3. Renewable Energy Connections**
 - 100% of Impact Assessments completed on time
 - 100% of new micro-embedded generation facilities connected on time
- 4. System Reliability Statistics**
 - SAIDI and SAIFI to be within the boundaries of WNH's experience in the prior year period or better
 - Capital investments for 2016 completed within budget
 - OEB mandated inspections completed
 - Maintenance completed within Budget

Operational Excellence & Reliability

PEOPLE & FOUNDATIONS

- 1. Proactive Safety Culture**
 - Zero Accident frequency per 200,000 hours
 - Meet and/or exceed OEB's Public Safety requirements (yet to be defined)
- 2. Employee Engagement**
 - Conduct Survey in 2016
 - Maintain or improve 93% satisfaction rating
 - Communicate to employees by Q2
 - Develop Action Plans from results by Q4 for 2017 implementation
- 3. Successful 2016 Negotiations**
 - Develop costing & assumptions model (Q1), develop/present Mandate to Board (Q1), complete negotiations within mandate
- 4. Human Resources Management Software**
 - Complete basic Nortek HR software implementation (Q2)
 - implementation of Recruitment and Leave Management Modules (Q4)

High Performing Culture

+ Board Pay Policy

Executive Total Compensation Policy

- **Sets out the process for and foundational elements of Executive Total Compensation**
 - Codifies the expectations and direction of the Program
 - Identifies Market Positioning and Market Competition
 - Accountability in administering the Program
- **Outlines Total Compensation Philosophy**
 - Pay competitively and equitably for performance
 - Supports attracting, retaining and maintaining top talent
 - Encourage and reward excellence and results
- **Incentive Structure**
 - For consideration by the Board
 - Recommending 50% - 100% - 150%

+ Incentive Pay Structure

- Provides an opportunity to earn lower or greater than 'Target' incentive
 - Results are '*linear*' for each objective
 - Results lower than meeting 100% of Target expectations, can achieve between Target and Threshold
 - Results greater than expected can achieve between Target and Outstanding

	Opportunity	Descriptor
Outstanding	150%	<ul style="list-style-type: none"> • Significant overachievement of the Target objective • Able to affect organizational change and advance the business • Proven effective consultative and collaborative approach • Exhibited <u>exceptional</u> leadership competencies
Target	100%	<ul style="list-style-type: none"> • Achieved the Target objective • Demonstrated <u>effective</u> level of leadership competencies • Took a consultative approach to accomplish tasks
Threshold	50%	<ul style="list-style-type: none"> • Achieved <u>most of or a reasonable</u> portion of the required objective and deliverables • Delivered on time, but did not meet all measures or vice versa

+ Incentive Program

Supporting Tools

- **Executive Incentive Plan**
 - Formalization of the Program
 - Protects both the individual and company
- **Guidelines**
 - Tool for setting and evaluating objectives
 - S.M.A.R.T. principles
- **Evaluation & Weighting Calculation Tools**
 - Simple tools, electronic templates

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Achieve \$240.56 or less

3. Financial Ratios

- Maintain Liquidity between 1.0-

1.25

- Maintain Leverage less than 60%

4. Optimize CDM Revenue

Opportunity

- Achieve 2016 CDM targets of 15% spend & 10.8% energy target by Q4

5. Growth

- Further Develop Business Case resulting from 2015 Board Strategic Session to identify four potential opportunities

- Execute 2016 actionable items

Sustained Growth & Profitability

CUSTOMER & COMMUNITY FOCUS

1. Optimal Service Quality –

Maintain and/or exceed OEB requirements:

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3. Protect WNH's Reputation & Enhance its Brand Equity

- Meet and/or exceed OEB's Public Safety requirements

- Develop a Strategic

Communications Plan (Q1), attain Board approval (Q2) and implement early Q3

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- Implementation by year-end/on budget

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Building WNH's Reputation

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High Performing Culture



Waterloo North Hydro Executive Total Compensation Salary Review

Marjorie Richards & Associates Ltd.





Review Approach

Market Analysis

- The market analysis encompassed:
 - Base salaries and total cash for Waterloo North's Executive team
 - Additional non-salary benefits and perquisites at the Executive level

- Position matches were made based on:
 - The LDC comparator positions as provided in the custom survey
 - The Hay Group data base matches to determine best fit outside of the LDC environment

Comparator Markets

- Market data was analyzed based on the following sectors:
 - *Broader Public Sector (BPS) Ontario – excluding GTA*
 - Includes public sector and non-profit organizations, for example:
 - ◆ Association of Universities & Colleges, Lakehead University, Durham College, Canadian Blood Services, Bank of Canada
 - *Industrial Sector (Industrial) Ontario – excluding GTA*
 - Includes organizations in a variety of industries, for example:
 - ◆ Boehringer Ingelheim, John Deere Ltd., Westcast Ind., Sleeman Breweries, Linamar and Henry Shein Canada

- *LDC Custom Compensation Survey – conducted in January 2015*



Review Approach

Methodology

- M. Richards requested the Hay Group include as many as possible, within its database, those companies and organizations that reside within the Waterloo Region
- Waterloo North considers its primary competition for executive talent to be its LDC market, yet recognizes the requirement to maintain a balanced review and approach against both the private and public sector markets
- The organization's Executive Pay Policy considers a 50th percentile position against the public and private sectors, with a primary focus on maintaining a competitive position against its LDC market comparators
- Waterloo North participated in a custom LDC Compensation Survey, conducted by M. Richards, engaging nine utilities, consisting of Waterloo North's direct competitive LDC market
- M. Richards conducted a comparative analysis of Waterloo North's Total Compensation (base salary and incentive) against the two data bases (LDC market and the Blended BPS and Broader Industrial Sectors)
 - To provide a fair and equitable comparison, against Waterloo North's 2015 salaries, M. Richards aged data base information provided for 2014. The information was aged by 2.5% reflective of Waterloo North's 2015 shift in executive salary bands

+ Overview of Findings

Base Salary Competitiveness

- For the purposes of this review, the assessment is based on the competitiveness of the Waterloo North's base mid-point salary (to align to databases) as follows:
 - 50/50 mix of Broader Public Sector (BPS) and Industrial (excluding GTA) against Waterloo North
 - LDC survey market data against Waterloo North

Position	Mid-Point Base Salary	BPS/Industrial Blended	Differential %	LDC Market	Differential %
CEO			-20.4		-17.5
CFO			6.3		-13.8
VP Operations			7.8		-4.5
VP Engineering			5.9		-1.6
VP IT			1.9		-4.4

+ Overview of Findings

Incentive Targets/Opportunity

- Waterloo North's '*target*' percentage incentive is provided below against the three markets – BPS, Industrial and LDC's

Position	Waterloo North's Incentive Opportunity	BPS	Industrial	LDC's
CEO	15.0%	12.0%	30.0%	23.0%
CFO	12.5%	12.0%	24.0%	22.0%
VP Operations	12.5%	9.0%	21.0%	21.0%
VP Engineering	12.5%	9.0%	22.0%	20.0%
VP IT	12.5%	9.0%	19.0%	20.0%

+ Overview of Findings

Total Cash Competitiveness

- For the purposes of the review, the assessment is based on the competitiveness of Waterloo North's Total Cash (comprised of base and target incentive) as follows:
 - 50/50 mix of Broader Public Sector (BPS) and Industrial against Waterloo North - utilizing Base Salary & Target Incentive
 - LDC market data against Waterloo North - utilizing Base Salary & Target Incentive

Position	Total Cash	BPS/Industrial Blended	Differential %	LDC Market	Differential %
CEO			-27.4		-25.6
CFO			1.2		-23.5
VP Operations			5.2		-12.4
VP Engineering			2.8		-8.4
VP IT			0.7		-11.3

+ Overview of Findings

Executive Non-Salary Benefits (Perquisites)

- The following chart provides a comparison between the LDC's on the benefits provided to the CEO/Executives, over and above salary (taxable benefit)
- In the chart below CEO's and Executives receive the same, unless otherwise noted

LDC Company	Vehicle Allowance/m onth	Club Membership/ Annum	Health Spending Acct./annum	Executive Physicals	Additional Medical Benefits	Life Insurance Coverage
Waterloo North						
LDC 1	\$600	\$300	\$200	No	No	175%
LDC 2	\$250	\$200	-	No	Yes	200%
LDC 3	\$750 CEO \$500 Exe.	-	\$1,000	Yes	Yes	175%
LDC 4	\$785 CEO \$600 Exe.	-	-	Yes	No	175%
LDC 5	\$1,000 CEO \$400 Exe.	-	\$1,000	No	No	200%
LDC 6	\$900	\$180	\$174	No	No	200%
LDC 7	\$750	-	\$2,000	Yes	No	150%
LDC 8	\$750	-	-	Yes	Yes	150%

*Observations &
Recommendations*

+

+ Observations & Recommendations

CEO Market Competitiveness

- The CEO's base salary and total compensation is 'lower' than the two market data base comparators (LDC peers, Blended BPS/Industrial Sectors)
- The CEO receives a lower than 'average' monthly car allowance of \$xxx versus the average of \$710 (ranges \$250 to \$1,000)
- Excluding Waterloo North, 88% (7 of 8) of CEO's are eligible for an incentive
 - Average Target Incentive eligibility is 23%, with the top earner at 36.8%
- Over half of the LDC peer group receive an annual Health Spending Account
- Just under half are provided access to Executive Physicals and Additional Medical

+ Observations & Recommendations

CEO Market Competitiveness

Recommendations:

- 1. The Board consider increasing the CEO's base salary commensurate with his LDC peer group*
 - At the Boards discretion the increases could be phased in over the period of 2 to 3 years to support affordability
 - That said, the Board should consider the 'significant' differential between comparators if determining a phased approach
- 2. The Board consider increasing the CEO's incentive opportunity to align 'closer' with his LDC peer group (23%), and/or the 50/50 Blended Rate (21%), or an average of both (22%)*
- 3. The Board consider a review of the CEO's non-salary benefits to align within a reasonable level of acceptability of his LDC peer group*

+ Observations & Recommendations

Executive Market Competitiveness (excluding CEO)

Given the normal variability in market data, slightly + or - 10% differential is generally considered within competitive market range

- When considering Base Salary:
 - All of Waterloo North's Executives have higher salaries than those of the Blended Market, and all within the variability of slightly + or - 10%
 - These bases salary comparisons can be considered 'market competitive'
 - Within the LDC comparison, the CFO's salary falls outside of normal variability at -13.8%
 - The remaining positions maintain lower salaries than their LDC counterparts, yet all fall within the variability of slightly + or - 10%
 - These base salaries can be considered 'market competitive'
- When considering Total Cash:
 - All of Waterloo North's Executives are paid above those of the Blended Market, and all fall well within the variability of + or - 10%
 - All compare lower than their LDC counterparts' salaries
 - Three of the four fall outside of the variability margin:
 - CFO at -23.5%
 - VP Operations at -12.4%
 - VP IT at - 11.3%

+ Observations & Recommendations

Executive Market Competitiveness (excluding CEO)

- All market comparators offer an incentive ‘opportunity’ to their executives
- As such, when considering market competitiveness, Waterloo North should consider the Total Cash opportunity of its executive group
- Incentives are re-earnable, not guaranteed, and should fluctuate year-over-year dependent on performance

+ Observations & Recommendations

CFO Market Competitiveness

- From a Total Cash perspective the CFO position compares favourably against the non-LDC Blended market, yet is considered substantially lower than its LDC peer counterparts
- Although an experienced and qualified CFO can be hired from outside of the LDC sector, the LDC of today and into the future requires highly informed knowledge of the Industry, the regulatory environment, IFRS (with Industry specific differentiators), and specifically the Cost of Service ('COS') Application process

Recommendations:

1. *Consider increasing the CFO's base salary commensurate with his LDC peer group*
 - Consideration could be given to increases phased in over the period of 2 to 3 years to support affordability and smoothing during the next COS Application
 - That said, the CEO should consider the 'significant' differential between comparators if determining a phased approach
2. *Consider increasing the CFO's incentive opportunity to align 'closer' with his/her LDC peer group (23%), and/or the 50/50 Blended Rate (18%), or an average of both (20.5%)*
3. *As with the CEO, consider a review of the full Executive Teams non-salary benefits to align within a reasonable level of acceptability of their LDC peer group*

+ Observations & Recommendations

VP's Operations & Engineering Market Competitiveness

- From a Base Salary perspective, both positions are considered market competitive and fall just within the + or – 10% variability
- From a Total Cash perspective both of these positions compare favourably against the non-LDC blended market. Within the LDC comparison, the VP Operations falls lower by -12.4% and the VP Engineering by -8.4%
- Both positions are typically recruited from within the LDC environment, more so the VP Operations. Waterloo North has determined that both positions are equal in scope and accountability, as such both should be treated equal when considering the following recommendations:

Recommendations:

1. *Consider increasing both positions' incentive opportunity to align 'closer' with their LDC peer group (20%), and/or the 50/50 Blended Rate (16%), or an average of both (18.0%)*
2. *As with the CEO, consider a review of the full Executive Teams non-salary benefits to align within a reasonable level of acceptability of their LDC peer group*

+ Observations & Recommendations

VP IT Market Competitiveness

- From a Base Salary perspective, this position is considered market competitive and falls 'well within' the + or – 10% variability of both data bases
- From a Total Cash perspective the position compares favourably with the non-LDC Blended market. Within the LDC market, the VP IT falls lower by -11.3%
- It is noted that only 3 of the 9 LDC's maintain a VP IT position. The qualifications and skills for such a position are not specific to the LDC environment. Such has been considered in the following recommendations:

Recommendations:

1. *Consider increasing the VP IT's incentive opportunity to align reasonably between the LDC and Blended markets*
 - *Consideration should be given to where such talent resides and has historically been hired from*
 - *If within the LDC environment consider an incentive of approx. 18%*
 - *If within the non-LDC environment consider an incentive of approx. 15%*
 - *It is not unusual to have a tiered approach to incentives relative to the executive roles and salary bands*
2. *As with the CEO, consider a review of the full Executive Teams non-salary benefits to align within a reasonable level of acceptability of their LDC peer group*

*Additional
Observations*

+

+ Additional Observations

Defined & Measurable Incentive Program

The review did not include an overview of the organization's incentive process. A well defined process should follow the following principles:

1. The organization has a robust and performance-driven process in place to award incentive based on achievement
2. The organization defines its incentive objectives against a Balanced Scorecard or other method of aligning outcomes with Strategy and Operational Effectiveness
3. Objectives are S.M.A.R.T. (Specific, Measurable, Achievable, Relevant and Time-Oriented)
4. The organization has in place a clear and concise method and supporting processes to identify, weigh and monitor objectives, as well as evaluating achievement against expectations

+ Additional Observations

Compensation Pay Philosophy

Waterloo North should consider developing a formal compensation philosophy to inform compensation decisions for its Executive and management group

- An organization's compensation philosophy provides a framework for the design and ongoing administration of compensation, and programs to support the organization's human capital requirements
- A compensation philosophy typically identifies the following:
 - The comparator markets (recruiting & retention) for purposes of maintaining competitive compensation
 - The desired position in the market
 - The basis of comparison (i.e. base salary, total cash, etc.)
 - The desired pay mix (i.e. base salary versus variable pay or pay at risk)
 - The basis and methodology for internal equity (protocol's on moving beyond 100%, recognition of top talent, titles, etc.)
 - Performance alignment (i.e. the organization's goals versus individual performance) and such areas as the degree of performance differentiation (for purposes of compensation) between individual employees

Executive Incentive Program
S.M.A.R.T. Objectives Guidelines

Introduction:

Waterloo North Hydro Inc. ('Waterloo North') recognizes the alignment of the contributions of its Executive Team to the success of its business. The organization strives to pay competitively and equitably for performance, yet is cognizant of the budgetary and business constraints of operating in a regulated environment.

Waterloo North bases its Executive total compensation philosophy on its desire to attract, retain and motivate an outstanding workforce. A substantive contributor to total compensation is the Executive Incentive Program. The Program provides reward opportunities for material contribution to the success of the organization through the individuals: direct ability to impact the business; demonstrative leadership skills; ability to motivate and engage employees and continuous improvement efforts. The Program reflects the belief that high performance and results should be encouraged, developed and rewarded.

Incentive Pay:

Incentive pay promotes a results-driven and pay-for-performance culture. The individual is provided the opportunity to earn a lump-sum incentive based on a percentage reward of his/her annual base pay salary.

Incentive pay rewards the Executive team for objectives achieved that add value to the business beyond the expected performance of his/her role in the organization. Such objectives support the organization's Balance Scorecard ('BSC'), yet are more strategic and impactful in nature – reflective of the level of influence and expectation at an executive level.

Those areas the Board of directors will focus on when approving and assessing CEO objectives and, conversely the CEO will focus on when approving and assessing his/her Executive teams objectives, are:

1. Initiatives that move the organization forward toward attaining its Strategic vision
2. Significant projects that add risk to the organization if they fail, or exceed budget and/or do not achieve substantive milestones
3. Internal initiatives that set the organization up to better respond to and direct the Cost of Service Application process
4. Optimization of CDM initiatives to take advantage of potential revenue opportunities
5. Continuous improvements on employee engagement
6. Maintaining a safety culture that protects employees, the public and the reputation of the organization

The organization utilizes a BSC approach to objective setting and annually assigns a corporate weighted goal to each of the following Strategic Imperatives:

<i>Financial Performance</i>	<i>Customer & Community Focus</i>	<i>Operational Effectiveness</i>	<i>People & Foundations</i>
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S.M.A.R.T. Objectives:

Waterloo North utilizes the S.M.A.R.T. methodology to set and evaluate objectives. The following provides the criteria of incentive opportunity for Target objectives at 100%. Outstanding achievement requires significantly more effort – whilst Threshold provides some opportunity to earn a bonus, relative to the level of demonstrated output/achievements.

	<i>Reward Opportunity</i>	<i>Descriptor</i>
Outstanding	150%	Significant overachievement: able to affect organizational change, advance the business and support the organizations strategic direction
Target	100%	Challenging yet achievable: within the CEO’s ability to control and influence, beyond day-to-day work expectations/projects
Threshold *	50%	Effort below Threshold does not pay out a bonus

Payout is linear and includes incremental achievement between Threshold and Outstanding percentages.

** No incentive payment shall be paid out if the organization does not achieve a Threshold of positive EBIT less the cost of the bonus payment, in any given year.*

Critical Elements in Setting S.M.A.R.T. CEO Objectives:

In setting S.M.A.R.T. objectives there are certain things to consider that will impact the decision-making process and construction of objectives.

Be Concise and Focused

- It is recommended that at the CEO and Executive level, individuals seek to achieve between 3 and 4 objectives in any give year. Trying to achieve too many can become unmanageable and lead to underperformance or difficulty in attaining the appropriate level of achievement
- Clearly understand the accountability and responsibility required in achieving the objective and where and from whom support is needed
- Avoid ambiguous or vague terminology in setting objective outputs such as:
 - Endeavour to
 - Attempt to
 - Consider
 - Complete
 - Plan
 - Finalize
 - Observe
 - Offer
 - Demonstrate

You can’t Measure what you can’t Manage

Know what you need to achieve to be successful. Setting stretch yet achievable measures is the most important element of S.M.A.R.T. objectives.

The organization has an obligation to demonstrate that paying out an incentive has a direct positive impact on the value creation for the Shareholders and the business. It is therefore prudent business practice to reward for clear, detailed and stretch measures of success.

There are two types of measures – Quantitative and Qualitative

- **Quantitative Measures** (how many, how much, \$’s, % improvement, turnaround, tied to 3rd party survey responses) – **PREFERRED APPROACH!!**
- **Qualitative Measures** should add value, have defined timelines, milestones and expected outputs. Qualitative measures are often project driven and based on implementation or improvement of a process, practice and/or standard

Discretionary Assessment

Both the CEO and the Board of directors place a high value on the Executive team demonstrating the right competencies and striving for continuous business improvement. The achievement of objectives is evaluated similar to performance expectations relative to merit pay - it is not only **what you do**, but also **how you do it**. Although expectations are built into the Evaluation Rating criteria, the evaluator has discretionary authority to either enhance or reduce the individual's results taking the following into consideration:

Competency Assessment

- Demonstrative and effective Leadership
- Fosters a team environment based on collaboration and communication
- Demonstrates organizational values and leads by example

Quality Assessment

- Professional and high-standard reporting, project plans and documentation
- Research/Develops against best practices, continuous improvement and historical trends to set a benchmark
- Demonstrated effective and timely decision-making

Take a Holistic Approach when Setting Objectives



The most impactful objectives consider:

- How the organization got to where it is now - look backwards. What happened in the past, what trends should be considered to improve or correct, what benchmarks are available to set or improve?
- The status quo is not enough. Look around to see what best practice companies are doing, what peer utilities are doing and measure against their success – not just the organization's own success. Look internally and identify areas where productivity and efficiencies can be improved upon.
- Always consider the future – where it is the organization wants or need to be. Continuous improvement is the foundation of sustainability and continued financial health.

Defining 'Stretch' Objectives

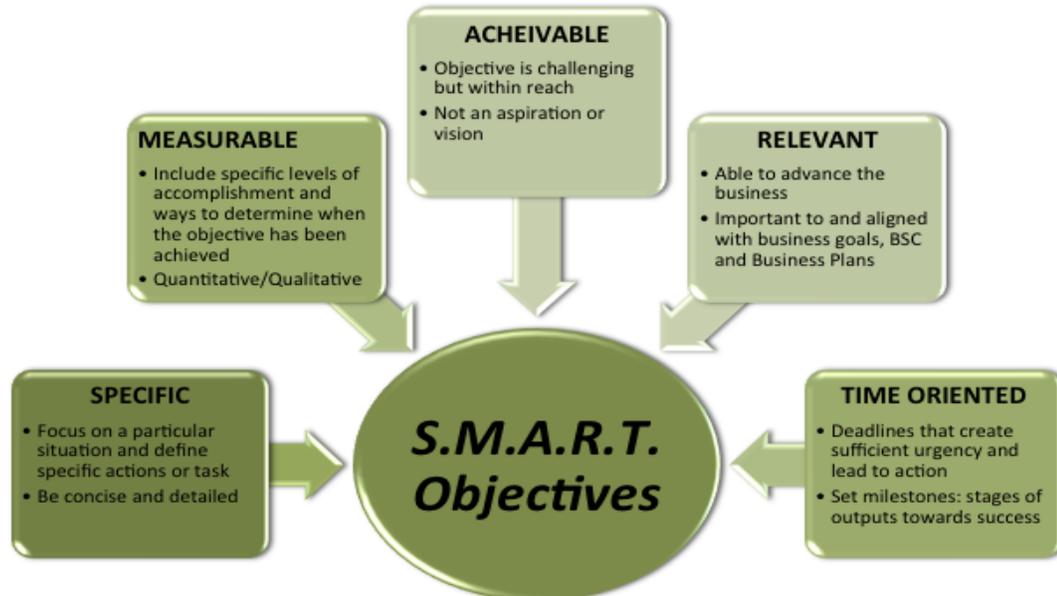
Incentive Pay is structured to reward the individual's contributions that support the strategic direction of the company, advance the business and maximize Shareholder value.

Incentive Pay **does not reward** for day-to-day activities, required job outputs and expected competencies. The organization's Performance Management system recognizes these contributions through merit pay and annual adjustments to base salary. Objectives are not to be structured to 'pay twice' for the same output or same expectations of the job function.

Target objectives should be challenging and aggressive, yet achievable. They should also be within the individual's ability to influence and control the outcome.

Remember – ***The Greater the Stretch – The Greater the Risk – The Greater the Reward!!!***

Elements of S.M.A.R.T. Objectives:



Specific Objectives

Objectives should be clear, concise and specific. They should specifically describe the result that is desired in a way that is detailed, focused and well defined. To be specific an objective should have a description of a precise or specific behaviour, achievement or outcome, which is or can be related to a percentage, frequency, rate or number of measured improvement/success.

To increase specificity when writing objectives use verbs, which are action-orientated to describe those actions, which need to be taken to fulfill objectives (see above). To assist in setting Specific objectives ask questions such as:

- What are we going to do, with or for whom?
- How will this be done and what strategies will be used?
- Why is this important to do?
- Is the objective (or objectives) understood?

-
- Is the objective (or objectives) described with action verbs?
 - Who is going to be responsible for what and do we need anyone else to be involved?
 - Where this will happen?
 - When do we want this to be completed?
 - What needs to happen?
 - Is the outcome clear?
 - Will this objective lead to the desired results?

Measurable Objectives

Measurement is significantly important and provides 'evidence' the objective has been achieved - derived from a system, method or procedure, which has tracked and recorded the behaviour or action upon which the objective is focused.

Consider:

- How will I know that the change has occurred?
- Can these measurements be obtained? (It is worth noting that if it can't be measured now, the chances are that it won't be possible to measure in the future either).

There are both Quantitative and Qualitative measures of success (refer to Page 3).

Achievable Objectives

Objectives need to be realistic, achievable and within the individual's ability of influence and control. Although the objective needs to be a stretch, it cannot be realistically unattainable.

Ask whether, with a reasonable amount of effort and application, the objective is achievable. An objective is achievable if:

- It has a clear defined measurement^[1]_{SEP}
- Others have already done it (the competition or another best practice company)
- The necessary resources are available, or there is a realistic chance of getting them
- The limitations have been reasonably assessed

Setting objectives that are unachievable will lessen motivation and lead to the individual applying little or no energy or enthusiasm to what may be seen as a futile task.

By declaring an objective to be achievable a commitment is made to provide or procure a level of resources (staff, money, technology, tools) without which the objective would not be achievable.

Relevant Objectives

Objectives should be appropriate to, consistent with and aligned to the Corporate BSC. Each objective should be one that moves the organization toward the achievement of its Strategic Imperatives and continued financial health.

Relevant objectives answer the questions:

- Should it be done?
- Why does it have to be done, and why now?
- What will be the impact?
- What will happen if we do nothing?

Time-Bound Objectives

Setting a deadline, a date or time when the objective will be accomplished or completed is necessary and must be included so as to make the outputs measurable. Deadlines assist to create the necessary urgency, prompt action and focus the mind of those who are accountable for the commitments that they have made through the objectives.

Not setting a deadline reduces the motivation and the urgency required to perform the tasks. Can the objective be accomplished within the deadlines that have been established, bearing in mind other possible competing demands may cause delays.

Be concise in setting timeframes:

- If possible try to avoid using times like: 2nd Half of the Year or Year End (Q4) – these are too vague and leave too much room for slippage
- Where possible use times like: Month, Week of, Actual Date – these keep you more focused with a heightened level of urgency

Evaluating Objectives:

The following Rating Scale has been set to assist in determining the appropriate level of achievement and any linear movement along the scale.

Rating	Descriptor	Potential Achievement Opportunity
3	<ul style="list-style-type: none">• Significant overachievement of the Target objective• Able to affect organizational change and advance the business• Proven effective consultative and collaborative approach• Exhibited <u>exceptional</u> leadership competencies• High quality reports, project planning and documentation	3 Achievement is maximum 150%
2	<ul style="list-style-type: none">• Achieved the Target objective• Demonstrated <u>effective</u> level of leadership competencies• Took a consultative approach to accomplish tasks• Delivered on time, on budget and reporting/documentation requirements were successfully met	2 Achievement is 100% > 2 and < 3 = Opportunity between 100%-150%
1	<ul style="list-style-type: none">• Achieved <u>most of or a reasonable</u> portion of the required objective and deliverables• Delivered on time, but did not meet all measures or vice versa• Acceptable level of demonstrated leadership competencies and consultation to accomplish tasks	1 Achievement is 50% > 1 and < 2 = Opportunity between 50%-100%
0	<ul style="list-style-type: none">• Achievement or effort below Threshold• Considered as insufficient effort	

EXECUTIVE NAME: _____ **DATE:** _____

WEIGHTED RATING CALCULATION

YEAR: **2016**

	Performance Rating	Objective Weighting	Weighted Rating	Bonus Opportunity	
OBJECTIVE #1	2.5	50.0%	62.5%		
OBJECTIVE #2	2.0	10.0%	10.0%		
OBJECTIVE #3	1.5	15.0%	11.3%		
OBJECTIVE #4	2.0	25.0%	25.0%		
TOTAL YEAR END		100.0%	108.8%		22.0%
		% of Annual Salary			23.93%

Rating Opportunity		
	3	150.0%
	2	100.0%
	1	50.0%