

SUEZ WATER RHODE ISLAND, INC.
 Docket No. 4800
 Third Set of Data Requests of the
 Division of Public Utilities and Carriers
 March 5, 2018

- 3-3 Incentive Compensation. Refer to pages 4-5 of the direct testimony of Company witness Katherine Arp.
- a. Please identify the dollar amount of incentive compensation recorded in the 9/30/2017 test year by account, in total for each incentive compensation program.
 - b. Pursuant to part "a", please provide a breakout between the test year incentive compensation that was (1) for SWRI employees; (2) allocated to SWRI from SUEZ Water Management and Services Inc. (SWM&S); and (3) allocated to SWRI by any other affiliates.
 - c. Please identify the dollar amount of incentive compensation included in the 9/30/2019 rate year by account, in total for each incentive compensation program.
 - d. Pursuant to part "c", please provide a breakout between the rate year incentive compensation that is (1) for SWRI employees; (2) allocated to SWRI from SWM&S; and (3) allocated to SWRI by any other affiliates.
 - e. For the test year and rate year, please identify the percentage of each incentive compensation program included in the Company's requested revenue requirement that is associated with meeting the Company's financial goals.
 - f. Please provide a complete copy of each incentive compensation plan that relates to costs that the Company has included in its revenue requirement.

Response:

- a. The Chart below shows the dollar amount of incentive compensation recorded in the 9/30/2017 test year by account.

Test Year 9/30/2017

Account	Account Description	Capital		Capital		LTD	Capital			
		Reps	Net	STD	Net		Capital	Net		
[REDACTED]										
Grand Total		\$ 9,137	\$ 2,289	\$ 6,848	\$ 73,741	\$ 14,506	\$ 59,234	\$ 11,753	\$ 1,625	\$ 10,128

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- b. The Chart below shows the breakout between the test year incentive compensation that was (1) for SWRI employees; (2) allocated to SWRI from SUEZ Water Management and Services Inc. (SWM&S); and (3) allocated to SWRI by any other affiliates.

Test Year 9/30/2017	Bonus	STIP	LTIP
(1) SWRI employees	\$ 6,848	\$ 28,785	\$ -
(2) Allocated to SWRI from M&S	\$ -	\$ 30,450	\$ 10,128
(3) Allocated to SWRI by any other affiliates	\$ -	\$ -	\$ -
Grand Total	\$ 6,848	\$ 59,234	\$ 10,128

- c. The Chart below shows the dollar amount of incentive compensation included in the 9/30/2019 rate year by account.

Rate Year 9/30/2019			Capital			Capital			LTIP		
Account	Account Description	Net	Bonus	21.83%	Net	STIP	21.83%	Net	Capital	Net	
[REDACTED]											
Grand Total			\$ 11,107	\$ 2,425	\$ 8,682	\$ 74,811	\$ 13,331	\$ 61,479	\$ 12,469	\$ 1,724	\$ 10,745

- d. The Chart below shows the breakout between the rate year incentive compensation that is (1) for SWRI employees; (2) allocated to SWRI from SWM&S; and (3) allocated to SWRI by any other affiliates.

Rate Year 9/30/2019	Bonus	STIP	LTIP
(1) SWRI employees	\$ 8,682	\$ 29,176	\$ -
(2) Allocated to SWRI from M&S	\$ -	\$ 32,304	\$ 10,745
(3) Allocated to SWRI by any other affiliates	\$ -	\$ -	\$ -
Grand Total	\$ 8,682	\$ 61,479	\$ 10,745

- e. As noted above, and in the Company's labor workpapers, the incentive compensation consists of Short-term incentive plan (STIP) for exempt employees and a 3% increase for non-exempt non-union employees. A copy of the STIP plan is attached as 3-3 Attachment A. As noted in the STIP plan, the compensation is composed of two parts. One based upon employees personal goals and one based upon Company financial results. Please see 3-3 Attachment B which shows that on average the

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(Arp)

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portion of the compensation that is based upon employees personal goals is 60% and the portion based upon Company financial results is 40%. Please also see the testimony of Division Witness Thomas Catlin in the Company's last rate case.

Attached as 3-3 Attachment C is a copy of the Non-Exempt Non-Union incentive plan which is based upon three operating criteria, Environment Health and Safety activities, training and performance.

- f. Please see 3-3 Attachment A.



Short Term Incentive Plan

**PLAN DOCUMENT
JANUARY 2008**

SHORT TERM INCENTIVE PLAN

PURPOSE

The Short Term Incentive Plan (STIP) is an annual compensation plan that supports United Water's business objectives by:

- Providing an annual incentive strategy that drives performance towards objectives critical to creating shareholder value.
- Offering competitive cash compensation opportunities to all eligible employees.
- Awarding outstanding achievement among employees who can directly impact United Water's results.
- Providing cash awards for both qualitative and quantitative results.
- Providing cash compensation opportunities for making sound business decisions that impact the company's financial performance and the overall success of Suez.

ELIGIBILITY

All active exempt employees including expatriates are eligible to participate in STIP if not covered by another annual incentive plan. Employees must be hired or promoted into STIP eligible positions by the first pay period of the fourth quarter of the plan year, in order to be eligible for a STIP award for that plan year..

AWARD OPPORTUNITIES

Employees are assigned a target award based on their job/salary grade. Target awards for expatriates will be based on their Suez compensation plan unless otherwise agreed to by Suez. The target award is established at market competitive levels and is expressed as a percentage of base salary. Target awards will be prorated for part-time employees. Paid awards may range from 0% to 200% of the target award based on achievement of financial objectives and personal objectives. Should any events occur during the performance year that in the opinion of the management of United Water materially affect the performance targets set, then United Water may recommend to the Compensation Advisory Committee and Suez that an adjustment be made to any final payment.

PERFORMANCE MEASURES

The STIP program is based on two different measures of performance that are critical to United Water's success, financial and personal performance.

SHORT TERM INCENTIVE PLAN

PLAN DOCUMENT

FINANCIAL

Each year, Suez Environment and United Water’s Compensation Advisory Committee determine financial measures and target performance levels that will form the basis for measuring success under STIP. Each objective is assigned a weight based on the employee’s job/salary grade.

PERSONAL

As a part of the Performance and Development Review (PDR) process, employees have specific annual objectives that support the attainment of departmental or organizational objectives. These objectives form the basis for the personal objective portion of STIP. Managers have the flexibility to set the weight of each personal objective in accordance with the plan’s guidelines.

PAYOUT SCALES

Every level of company, business segment/department and individual performance earns a different STIP payout. As United Water and its employees meet or exceed their objectives the payout will grow as shown on the below payout scales.

Financial Objectives

<u>% Of Objective Achieved</u>	<u>PAYMENT %</u>
≤ 80%	0% (Threshold)
100%	100% (Target)
≥ 120%	200% (Maximum)

No incentive will be paid for results at or below 80% (threshold) of an objective. An incentive payment equal to two times the target can be earned for results equal to or greater than 120% of objective. A *curvilinear* progression applies for determining the payout % between threshold and maximum. (See Appendix A)

Personal Objectives

Scale	Performance Definition	Payment %
1	Significantly below objective	0 %
2	Close to objective	1%-90%
3	Met objective	91%-110%
4	Above objective	111% -150%
5	Significantly above objective	151% - 200%

SHORT TERM INCENTIVE PLAN

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At the end of the performance year, managers will evaluate their employee’s personal objectives and assign a payment percentage based on the level of performance achieved. Personal objectives that are financial indicators should be measured using the scale for financial objectives.

Sample Award Calculation

Key Assumptions: Base Salary = \$82,000 Individual Target = 15% or \$12,300
Corporate Financials weight 30% and Personal Objectives weight 70%

Performance Measure	Target \$M	Achievement	Payment% (A)	Weight (B)	Earned Award % (A x B)
EBITDA	\$126.8	99.2%	97.2%	10%	9.7%
Free Cash Flow	\$-51.2	101.3%	104.6%	10%	10.5%
Net Current Income	\$35.4	88.7%	52.0	10%	5.2%
Total Financial				30%	25.4%
Personal Objective #1		Met Objective	100.0%	20%	20.0%
Personal Objective #2		Above Objective	120.0%	10%	12.0%
Personal Objective #3		Met Objective	110.0%	10%	11.0%
Personal Objective #4		Close to Objective	70.0%	10%	7.0%
Budget Objective	\$47.5	113.6%	160.3%	20%	32.1%
Total Personal Total STIP Earned				100%	82.1% 107.5%

Award Payment Calculation

Individual Target (15%)	\$12,300
Total Earned Award% X	<u>107.5%</u>
STIP Award Payment	\$13,223

SHORT TERM INCENTIVE PLAN

PLAN DOCUMENT

PLAN PAYOUTS

Employees who are on the active payroll on December 31st of the performance year will be eligible to receive an award. Employees who are terminated for cause or gross misconduct or who voluntarily resign prior to the end of a plan year will not receive a STIP award.

STIP awards will be prorated for eligible new hires based on the number of days on payroll the year of hire. Employees whose target award may have changed during a plan year due to a job change will receive a prorated award based on number of days in each job.

Employees who choose to retire prior to the end of any plan year and *have worked a minimum of 3 months in the plan year*, will receive an award that is prorated to reflect the number of days actually worked during the plan year. This also applies in the event of death, disability (defined as any consecutive absence of 60 days or more), leave of absence, inter-company transfers or a reduction in force. In the event of disability the pro-ration will apply to financial targets only and not personal objectives. Payments will be made when normally paid in the 1st quarter of the year following the performance year.

STIP awards are based on year-end salary and are paid in lump sum during the first quarter following the end of the performance year. *STIP award payments can be deferred, under the terms of United Water's Deferred Compensation Plan.*

STIP awards are treated as ordinary income for tax purposes. Taxes will be withheld and are owed in the year awards are paid.

ADMINISTRATION

United Water's Compensation Advisory Committee, Suez Environment and the CEO of United Water administer the STIP program. The interpretation of the application of the plan document is at the sole discretion of the company and the CEO's decision will be binding. United Water's Compensation group manages program administration.

Important

Neither STIP, nor any action taken in conjunction with this plan, shall be construed as giving to any employee the right to be retained by United Water. The statements in this document do not constitute a contract relative to compensation treatment and are not intended to create any contractual rights, either expressed or implied, between United Water and its employees. Certain situations may require compensation treatment different than the practices expressed here. The policies, practices, and procedures described in this document may be changed, altered, modified, or deleted at any time, with or without prior notice by United Water. The STIP may be modified or terminated at any time. These actions may affect present and future eligible employees.

SHORT TERM INCENTIVE PLAN

PLAN DOCUMENT

APPENDIX A

Curvilinear Payment Table

Perf. Score	Payment %
≤80%	0.0%
81%	6.8%
82%	13.4%
83%	19.7%
84%	25.4%
85%	31.8%
86%	37.5%
87%	43.1%
88%	48.4%
89%	53.6%
90%	58.6%
91%	63.4%
92%	68.0%
93%	72.5%

Perf. Score	Payment %
94%	76.9%
95%	81.1%
96%	85.1%
97%	89.0%
98%	92.8%
99%	96.5%
100%	100.0%
101%	103.5%
102%	107.2%
103%	111.0%
104%	114.9%
105%	118.9%
106%	123.1%
107%	127.5%

Perf. Score	Payment %
108%	132.0%
109%	136.6%
110%	141.4%
111%	146.4%
112%	151.6%
113%	156.9%
114%	162.5%
115%	168.2%
116%	174.1%
117%	180.3%
118%	186.6%
119%	193.2%
120%	200.0%
≥120%	200.0%

STIP Incentive Weight Chart				
Metric	Corporate M&S Grade 20-23	Corporate M&S Grades 13-19	Regulated & UWES M&S Grade 20-23	Regulated & UWES M&S Grades 13-19
All United Water				
EBITDA	10%	6.70%	6.70%	3.34%
Free Cash Flow	10%	6.70%	6.70%	3.33%
Net Current Income	10%	6.60%	6.60%	3.33%
Non-Financial				
Personal Objective	50%	70%	50%	70%
Business Segment/Dept Financials	20%	10%	30%	20%
Project Financials	-	-	-	-
TOTAL	100%	100%	100%	100%

Financial Objective %	50%	30%	50%	30%
Non-Financial objective %	50%	70%	50%	70%

Average
40%
60%

LTIP Incentive Weight Chart (Eligibility: Grades 22 and above only)	
EBITDA	40%
ROCE	20%
New Result	40%



2013 NON-EXEMPT NON-UNION INCENTIVE PROGRAM

revised 2013

2013 Non-Exempt Incentive Program



PURPOSE: The program supports United Water’s business ideals by recognizing the efforts of non-exempt employees in contributing to the success of the Company’s environmental health and safety performance and our overall corporate objectives.

ELIGIBILITY: All active non-exempt regular employees, part-time and full-time, are eligible to participate in the Incentive Program. Employees must be hired by the first pay period of the fourth quarter of the plan year, in order to be eligible for an award for that plan year.

AWARD OPPORTUNITY: The target award for non-exempt/non-union employees is 3% of productive earnings. Payment is calculated based on percent of target accomplishment multiplied by the employee’s total productive earnings for the calendar year.

Productive Earnings are defined as: Earnings for all hours an employee is paid for (including regular time, overtime, rest time, stand-by, emergency, holidays (incl. floaters), vacation, bereavement, and jury duty) excluding sick time (paid/unpaid), STD, LTD, Worker’s Compensation, personal time (unpaid) and FML time.

PERFORMANCE MEASURES: Performance Measures are subject to change from one plan year to the next and are at the discretion of senior management and the plan administrator. All performance is to be measured against proposed targets on a cumulative YTD basis for incentive purposes. The program is based on the following measurements for each Business Unit:

	<u>2013*</u>	<u>2014</u>
○ EHS Activities	0%	1.0%
○ Required Training	1.5%	1.0%
○ EHS Performance	1.5%	1.0%

**** For performance year 2013, the EHS Activities performance measure will not be included in the bonus calculation and the other measures will be adjusted as stated. For performance year 2014, the EHS Activity performance measure will have a 1% target.***

2013 Non-Exempt Incentive Program



1. **EHS ACTIVITIES:** Each employee must participate in two (2) EHS Activities on an annual basis.

EHS Activities are defined as:

- Participating and/or conducting formal EHS safety inspections
- Submitting an actionable and verified near miss, unsafe working conditions, or EHS improvement suggestion
- Participating and/or conducting a Job Safety Analysis
- Participating and/or conducting a formal EHS Risk Assessment
- Completion of a EHS self-assessment and/or survey
- Participating in an approved EHS Corporate managed initiative deemed part of this program

Frequency: 2 activities per year. Verification will be conducted by submission of forms, attendance sheets or equivalent (as determined by each Business Unit). Corporate EHS will provide a quarterly summary of status of EHS activities completion to be given to each employee and/or their supervisor for distribution to the employee.

Measurement: Activities will be measured individually. Employees who complete one activity will receive 50% of the goal; two activities will equal 100%.

For performance year 2013, the EHS Activities performance measure will not be included in the bonus calculation and the other measures will be adjusted as stated. For performance year 2014, the EHS Activity performance measure will have a 1% target.

2013 Non-Exempt Incentive Program



2. **REQUIRED TRAINING:** Complete and maintain assigned required training according to specified timeframes. Each employee is expected to review and maintain compliance with the required training as indicated by their position and on their individual Training Needs Assessment (TNA), if applicable, by the assigned date. Employees must successfully complete the training assessment.

Frequency: Ongoing; measured at year-end.

Measurement: Achievement as follows:

- > 15% overdue = 0%
- 1-15% overdue = 75%
- 0% overdue = 100%

Corporate EHS will provide a quarterly summary of required training status completion to be given to each employee and/or their supervisor for distribution to the employee.

3. **EHS PERFORMANCE:** Meet or exceed Division/Business Unit's year end results for EHS as follows:

- Recordable injury rates
- Avoidable incidents
- Training hours – Suez annual target

Frequency: Ongoing; measured at year-end.

Measurement: Achievement as follows:

- 33 1/3% for meeting Division/Business Unit's recordable injury rate target
- 33 1/3% for meeting Division/Business Unit's environmental avoidable incident targets for Severity 5 incidents and above (as defined in the Environmental Compliance Assurance Program (ECAP) manual), or any missed samples and/or any late reporting irrespective of the severity level*
- 33 1/3% for meeting Suez annual target (subject to change as determined by Suez) training hours per employee per month. Suez defines such training as tailgates/ job safety pre or de-briefs, in-house safety training sessions/courses, and outside/external safety training that we send employees to.

*** For performance year 2013, the avoidable incident rate targets will be included in the bonus calculation, effective September 2013. Beginning 2014, avoidable incidences will be calculated in full.**

2013 Non-Exempt Incentive Program



PAYOUTS: Regular part-time and full-time employees who are on the active payroll on December 31st of the performance year will be eligible to receive an award. Employees who are terminated for cause or gross misconduct will not receive an award regardless of when termination occurs. Employees who voluntarily resign prior to the end of the plan year will not receive an award. Awards are treated as ordinary income for tax purposes. Taxes will be withheld and are owed in the year awards are paid. Payment decision will be made annually by the executive management team and if approved will be paid in the 2nd quarter of the following performance year.

1. AWARD EXAMPLE, Payment for Performance Year 2013

Productive Earnings		\$50,000
Target	3%	\$ 1,500

Performance Measure	Target Met	Payment% (A)	Weight	Payment \$
EHS Activities	1 of 2	n/a	n/a	\$0
Required Training	10% overdue	.75%	1.50%	\$562.50
EHS Performance			1.50% total	
Recordables	0%	0%	→ 0.50%	\$0
Avoidables	100%	100%	→ 0.50%	\$250.00
Training Hours	100%	100%	→ 0.50%	\$250.00
Totals			3.00%	\$1062.50

Important: The statements in this document do not constitute a contract relative to compensation treatment and are not intended to create any contractual rights, either expressed or implied, between United Water and its employees. The policies, practices, and procedures described in this document may be changed, altered, modified, or deleted at any time, with or without prior notice by United Water. The program may be modified or terminated at any time. These actions may affect present and future eligible employees.

2013 Non-Exempt Incentive Program



2. AWARD EXAMPLE, Payment for Performance Year 2014

Performance Measure	Target Met	Payment% (A)	Weight (B)	Payment \$
EHS Activities	1 of 2	.50%	1.0%	\$250.00
Required Training	10% overdue	.75%	1.0%	\$375.00
EHS Performance			1.0% total	
Recordables	0%	0%	→ .34%	\$0
Avoidables	100%	100%	→ .33%	\$166.66
Training Hours	100%	100%	→ .33%	\$166.66
Totals			3.0%	\$958.32

ADMINISTRATION: United Water’s Human Resources department will administer this program. The interpretation of the application of the plan document is at the sole discretion of the company and the Segment President’s decision will be binding. Continuation of the program will be determined annually by the Segment President and decision will be communicated to plan participants prior to the commencement of the next performance year. Incentive payments are not considered eligible earnings for calculation of pension benefit or 401(k) deferrals and company match as per plans’ provisions.

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