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APPENDIX 9 TO WATER MANAGEMENT CONTRACT [004]

## **Appendix 9**

# **Incentive Compensation Appendix**

**PERFORMANCE INCENTIVE COMPENSATION  
APPENDIX 9 TO  
GENERAL CONDITIONS FOR A  
MANAGEMENT CONTRACT FOR  
THE PROVISION OF WATER AND  
WASTEWATER SERVICES**

**INCENTIVE COMPENSATION APPENDIX PROVISIONS**

**ARTICLE 1 - GENERAL**

**1.1 Documents Comprising the Incentive Compensation Appendix**

- (1) The Incentive Compensation Appendix consists of:
  - (a) the Incentive Compensation Provisions;
  - (b) the Incentive Compensation Calculation Procedure Notes (Attachment #1); and
  - (c) the Incentive Compensation Charts (Attachment #2 Charts 1 to 4).

**ARTICLE 2 - THE INCENTIVE COMPENSATION**

**2.1 Incentive Compensation Limits**

(1) The Incentive Compensation paid to the Operator shall not exceed the equivalent of \$1,500,000 U.S. over the term of the Contract.

(2) The Incentive Compensation paid to the Operator in any Contract Year shall not exceed,

- (a) the equivalent of \$345,000 US; or
- (b) the total revenues collected by the Operator from Customers in the Contract Year for which the Incentive Compensation is being calculated (the “Year of Calculation”) minus the total revenues from the same time period in the year immediately prior to the Year of Calculation,

whichever is less (the “Maximum Annual Incentive Compensation”).

(3) The actual amount paid to the Operator as Incentive Compensation shall be determined by the extent to which the Operator achieves the performance criterion set out in the Incentive Compensation Charts and by the application of the calculations set out in the Incentive Calculation Procedure Notes for the applicable Contract Year.

(4) If the Operator fails to meet the Excellent rating set out in the Incentive Compensation Chart, in any Contract Year, the Operator will be obliged to make up the shortfall in the subsequent Contract Year, as well as meet the performance targets for that Contract Year.

(5) Except as the Employer may, in its sole discretion, otherwise determine based on exceptional circumstances, if the Operator fails to attain the Maximum Annual Incentive Compensation in any Contract Year, the shortfall will not be available to the Operator in the subsequent Contract Years and the equivalent of \$375,000 U.S. per Contract Year maximum will not be increased.

(6) For the purpose of calculating the equivalency of \$1,500,000 US and \$375,000 US pursuant to Section 2.1(1) and 2.1(2) of this Incentive Compensation Appendix, the equivalency shall be calculated as of the date of payment of the Incentive Compensation.

## **2.2 Incentive Compensation Contingency**

The Operating Investment Fund will include a contingency amount equivalent to \$375,000 per Contract Year to guarantee payment of the Incentive Compensation earned by the Operator in any Contract Year as calculated pursuant to this Incentive Compensation Appendix.

## **2.3 Minimum of “Poor” Performance on Any Criteria**

If, in any Contract Year, the Operator receives a rating of less than Poor on any one of the criteria measured, the Operator shall not be eligible to receive Incentive Compensation for that Contract Year.

SAMPLE

# **Attachment #1**

## **Incentive Compensation Calculation Procedure Notes**

**ATTACHMENT # 1**  
**INCENTIVE COMPENSATION CALCULATION PROCEDURE NOTES**

**PART A - THE METHOD FOR CALCULATING INCENTIVE COMPENSATION IN EACH CONTRACT YEAR**

1. The Incentive Compensation for each Contract Year shall be calculated as follows:

$$\text{Compensation} = \text{Composite Score} \times 0.2 \times \text{Maximum Annual Incentive Compensation}$$

Where:

- (i) The Maximum Annual Incentive Compensation is calculated as set out in Section 2.1(2) of the Incentive Compensation Appendix Provisions; and
- (ii) The Composite Score is calculated in accordance with Part B-The Method for Calculating the Composite Score of these Incentive Compensation Procedure Notes.

**PART B - THE METHOD FOR CALCULATING THE COMPOSITE SCORE**

1. The Composite Score for each Contract Year shall be as follows:

$$\text{Composite Score} = \text{Total of All Weighted Scores for the Performance Criteria}$$

Where:

- (i) The Weighted Score for each Performance Criterion equals Criterion Weight X Criterion Value;
- (ii) The Criterion Value is measured from Excellent to Poor with corresponding values of 5 (for excellent performance) to 1 (for poor performance) as set out in the Incentive Compensation Charts and evaluated based on the performance of the Operator; and
- (iii) The Criterion Value which the Operator receives for any Performance Criterion is based upon the performance standards set out in the Incentive Compensation Charts under the headings, Excellent, Very Good, Good, Fair, and Poor as compared against the Operator's actual achievements in each Contract Year.

## Water Management Agreement - Example 4 – Appendix 9

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2. For ease of reference, the following calculation represents the calculation of the Composite Score for a hypothetical Operator for three performance criteria in one Contract Year.

### Sample Incentive Compensation Chart (Using Year 3 of the RFP)

Criterion	Units	Weight	Criterion Values				
			5 Excellent	4 Very Good	3 Good	2 Fair	1 Poor
1. Constancy of Water Supplied	% of month	0.30	60	55	50	45	40
2. Electricity Use	% Reduction in KWHR/MC M consumed	0.25	20	18.5	17	16	15
3. Leak Detection Survey	KM	0.15	250	225	200	175	150
4. Collection of annual billed amounts	% annual collected to annual billed	0.30	90	85	80	75	70

The following table demonstrates the procedure for the calculation of the AComposite Score, if at the end of the year the achievements of the Operator are as follows:

- i) Constancy of water supplied 55%
- ii) Electricity use reduction 20%
- iii) Leak Detection Survey 210 Kms
- iv) Annual collected/billed 78%

### Calculation of Composite Score

Criterion	Units	Weight	Achievement	Raw Score	Weighted Score
1. % Constancy of water	%	0.30	55	4	1.20
2. % Reduction in electricity	%	0.25	20	5	1.25
3. Leak detection survey	KM	0.15	210	4.4	0.66
4. Collected/Billed amounts	%	0.30	78	2.6	0.78
<b>COMPOSITE SCORE</b>					<b>3.89</b>

**Attachment #2**

**The Incentive Compensation Charts**

SAMPLE

<b>CHART 1 PERFORMANCE INCENTIVE OBLIGATIONS – YEAR 1</b>								
Services Appendix Reference	Performance Criterion	Units	Criteria Weight	Criterion Value				
				Excellent 5	Very Good 4	Good 3	Fair 2	Poor 1
<b>OPERATING EFFECTIVENESS</b>								
5.3(1)(d)	Constancy of Water Supplied	% of month with continuous water supply	0.10	20.0	18.5	17.5	16.0	15.0
<b>OPERATING EFFICIENCY</b>								
3.1.8(1)	Electricity use	% Reduction in Kilowatt Hours per Million Cubic Meters Produced in 1 <sup>st</sup> Year (and Consumed subsequent years)	0.05	5.0	4.0	3.0	2.0	1.0
5.3(1)(e)	Install Production Meters	% of Sources	0.08	100	90	85	80	75
5.3(1)(e)	Install Retail Meters	Number	0.08	6000	5500	5000	4500	4000
5.3(1)(f)	Leak Detection Survey	KM	0.06	500	450	400	350	300
<b>FINANCIAL &amp; ADMINISTRATIVE IMPROVEMENTS</b>								

<b>CHART 1 PERFORMANCE INCENTIVE OBLIGATIONS – YEAR 1</b>								
Services Appendix Reference	Performance Criterion	Units	Criteria Weight	Criterion Value				
				Excellent 5	Very Good 4	Good 3	Fair 2	Poor 1
3.1.6(1)	Develop Standard Operating Procedures	Plan/Program	0.10	Completed on time, No revisions	Completed on time, 1 revision, minor revisions e.g. language errors, resubmitted after 1 week	Completed on time, 1 revision, some substantial but resubmitted and approved after 1 week	Completed on time, requires 2 revisions, before final approval. 2 <sup>nd</sup> revision submitted within 2 weeks of original submission	Completed on time, requires 2 or more revisions and final submission is within 30 days of original submission
3.1.7(1)	Develop Operations and Maintenance Manuals	Plan/Program	0.10	Completed on time, No revisions	Completed on time, 1 revision, minor revisions e.g. language errors, resubmitted after 1 week	Completed on time, 1 revision, some substantial but resubmitted and approved after 1 week	Completed on time, requires 2 revisions, before final approval. 2 <sup>nd</sup> revision submitted within 2 weeks of original submission	Completed on time, requires 2 or more revisions and final submission is within 30 days of original submission



<b>CHART 1 PERFORMANCE INCENTIVE OBLIGATIONS – YEAR 1</b>								
Services Appendix Reference	Performance Criterion	Units	Criteria Weight	Criterion Value				
				Excellent 5	Very Good 4	Good 3	Fair 2	Poor 1
3.1.8(1)	Develop Energy Management Plan	Plan/Program	0.11	Completed on time, No revisions	Completed on time, 1 revision, minor revisions e.g. language errors, resubmitted after 1 week	Completed on time, 1 revision, some substantial but resubmitted and approved after 1 week	Completed on time, requires 2 revisions, before final approval. 2 <sup>nd</sup> revision submitted within 2 weeks of original submission	Completed on time, requires 2 or more revisions and final submission is within 30 days of original submission
3.1.10(1)	Develop Training Program	Plan/Program	0.10	Completed on time, No revisions	Completed on time, 1 revision, minor revisions e.g. language errors, resubmitted after 1 week	Completed on time, 1 revision, some substantial but resubmitted and approved after 1 week	Completed on time, requires 2 revisions, before final approval. 2 <sup>nd</sup> revision submitted within 2 weeks of original submission	Completed on time, requires 2 or more revisions and final submission is within 30 days of original submission

**CHART 1**  
**PERFORMANCE INCENTIVE OBLIGATIONS – YEAR 1**

Services Appendix Reference	Performance Criterion	Units	Criteria Weight	Criterion Value				
				Excellent 5	Very Good 4	Good 3	Fair 2	Poor 1
7.1(4)	Develop/Install Computerized Accounting System	% of System Operational	0.12	100	95	90	85	80
7.3(2)	Improvement in collection of annual billed amounts	% Annual Collected amounts to annual billed amounts	0.10	75	70	67.5	65	60

SAMPLE

<b>CHART 2</b>								
<b>PERFORMANCE INCENTIVE OBLIGATIONS – YEAR 2</b>								
Services Appendix Reference	Performance Criterion	Units	Criteria Weight	Criterion Value				
				Excellent 5	Very Good 4	Good 3	Fair 2	Poor 1
<b>OPERATING EFFECTIVENESS</b>								
5.3(1)(d)	Constancy of Water Supplied	% of month with continuous water supply	<b>0.20</b>	40.0	36.0	30.0	25.0	20.0
<b>OPERATING EFFICIENCY</b>								
3.1.8(1)	Electricity use	% Reduction in Kilowatt Hours per Million Cubic Meters Produced in 1 <sup>st</sup> Year (and Consumed subsequent years)	<b>0.25</b>	15.0	12.5	11.0	8.0	5.0
5.3(1)(f)	Leak Detection Survey	KM	<b>0.15</b>	500	450	400	350	300
<b>FINANCIAL &amp; ADMINISTRATIVE IMPROVEMENTS</b>								
5.2(1)(b)	Computerized Facilities Data Base	Data Base	<b>0.15</b>	Completed on time-no revisions	Completed on time, minor revisions, corrections within one month of original completion date	NA	Completed on time, revisions require no more than two months after original completion date	NA
7.3(2)	Improvement in collection of annual billed amounts	% Annual Collected amounts to annual Billed amounts	<b>0.25</b>	85	75	70	65	60

<b>CHART 3</b>								
<b>PERFORMANCE INCENTIVE OBLIGATIONS – YEAR 3</b>								
Services Appendix Reference	Performance Criterion	Units	Criteria Weight	Criterion Value				
				Excellent 5	Very Good 4	Good 3	FAIR 2	Poor 1
<b>OPERATING EFFECTIVENESS</b>								
5.3(1)(d)	Constancy of Water Supplied	% of month with continuous water supply	<b>0.30</b>	60.0	55.0	50.0	45.0	40.0
<b>OPERATING EFFICIENCY</b>								
3.1.8(1)	Electricity use	% Reduction in Kilowatt Hours per Million Cubic Meters Produced in 1 <sup>st</sup> Year (and Consumed subsequent years)	<b>0.25</b>	20.0	18.5	17.0	16.0	15.0
5.3(1)(f)	Leak Detection Survey	KM	<b>0.15</b>	250	225	200	175	150
<b>FINANCIAL &amp; ADMINISTRATIVE IMPROVEMENTS</b>								
7.3(2)	Improvement in collection of annual billed amounts	% Annual Collected amounts to annual Billed amounts	<b>0.30</b>	90	85	80	75	70

<b>CHART 4</b>								
<b>PERFORMANCE INCENTIVE OBLIGATIONS – YEAR 4</b>								
Services Appendix Reference	Performance Criterion	Units	Criteria Weight	Criterion Value				
				Excellent 5	Very Good 4	Good 3	Fair 2	Poor 1
<b>OPERATING EFFECTIVENESS</b>								
5.3(1)(d)	Constancy of Water Supplied	% of month with continuous water supply	<b>0.45</b>	75.0	70.0	65.0	60.0	55.0
<b>OPERATING EFFICIENCY</b>								
3.1.8(1)	Electricity use	% Reduction in Kilowatt Hours per Million Cubic Meters Produced in 1 <sup>st</sup> Year (and Consumed subsequent years)	<b>0.25</b>	25.0	23.5	22.0	21.0	20.0
5.3(1)(f)	Leak Detection Survey	KM	<b>0.10</b>	250	225	200	175	150
<b>FINANCIAL &amp; ADMINISTRATIVE IMPROVEMENTS</b>								
7.3(2)	Improvement in collection of annual billed amounts	% Annual Collected amounts to annual Billed amounts	<b>0.20</b>	95	92	90	87	85