

1 **Q. Further to CA-NP-204, please explain why the Company permits executive and**
2 **director level salaries to exceed the median of the Canadian Commercial Industrial**
3 **(executive and non-executive) market.**
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5 A. This matter was addressed at Newfoundland Power's 2010 General Rate Application by
6 the compensation expert Mr. Karl About.
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8 It was Mr. About's evidence that:
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10 *"The fact that we set pay standards to certain principles, they being a*
11 *broad industrial market at the P50, doesn't suggest that we're going to*
12 *price every executive exactly to those standards. We would always expect*
13 *that incumbent specific pay is reflective of incumbent performance and*
14 *incumbent years of service. So we would never expect that you're going to*
15 *have exactly spot on the market numbers. We expect to see variances and*
16 *the variances I see for all columns, for all rows on Table 2, are easily*
17 *within the norms I see. In fact, if anything, they would be a bit*
18 *conservative in their lack of significant variance.*

19
20 *There is, I've just come to understand, a principle at Newfoundland*
21 *Power's salary structure that says except for exceptional circumstances,*
22 *no executive salary should be more than ten percent above the market*
23 *standard. For a private sector organization, that is very conservative. In*
24 *my experience, a private sector organization would typically say we don't*
25 *want to pay an executive more than 20 percent salary above standard and*
26 *here you folks are using a pay principle of ten percent above the standard.*
27 *In fact, if, there's a trend, private sector organizations have pushed 20*
28 *percent up to 25 percent. They are not going to incur the risk of losing a*
29 *key contributor role for the sake of five or ten thousand dollars when it*
30 *would cost 50 to 100,000 dollars of recruitment fees to replace a person*
31 *and the huge risk of business continuance when a senior executive leaves*
32 *is far too important to constrain someone's salary to only ten percent*
33 *above standard. So the fact that you have a ten percent above standard, I*
34 *think, is a pretty conservative principle, and none of your people exceed*
35 *that principle.*

36
37 *So all in, I think the variance percentages are conservative.¹ I think the*
38 *pay principles are sound. There's nothing in Table 2 that would suggest,*
39 *from my experience, that is untoward."*
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41 In 2016, no executive salary exceeds 105% of salary policy.

¹ See, Newfoundland Power's 2010 General Rate Application, Transcript, October 26, 2009, page 24, line 6, *et seq.*