

1 **Q. Further to PUB-NP-005 and CA-NP-204, explain why the median of salaries for the**
2 **Canadian Commercial Industrial executive market was selected as the basis for the**
3 **Executive salary policy. In the response state the date it was selected and last**
4 **reviewed to determine its appropriateness and what other target groups were**
5 **considered and rejected.**

6
7 **A. The Canadian Commercial Industrial Market**
8

9 Newfoundland Power first adopted the broad Canadian Industrial comparator group as
10 the basis for executive salary policy in 1997. The appropriateness of the use of this
11 market to establish executive salary policy for Newfoundland Power was first considered
12 by the Board in 1998.

13
14 Newfoundland Power provided expert evidence and testimony in relation to its executive
15 and senior management compensation in its 1998 General Rate Proceeding.¹ This
16 included the use of the median level of the broad Canadian Industrial comparator group
17 as the basis of executive salary policy. At that time, the Board accepted the Company's
18 management compensation as reasonable.²

19
20 Since 1998, Newfoundland Power has consistently used the median of the Canadian
21 Industrial comparator group as the basis of executive salary policy.³ The Board has
22 accepted the resulting executive salary costs as reasonable on a consistent basis.⁴

23
24 This comparator group for Newfoundland Power executive compensation was last
25 examined by the Board in detail at the Company's *2010 General Rate Application*.
26 There, the expert evidence of the Hay Group Limited was that:

27
28 *"Hay Group believes that it is reasonable for NF Power to compare itself*
29 *to the list of organizations of Appendix C because:*

- 30
31 • *Jobs are compared on a "point adjusted" basis which means they are*
32 *compared to those of overall equal skill, effort, and responsibility, and*
33 *not on the basis of "same title";*
34
35 • *The organizations are all "private sector/investor owned"; and*
36
37 • *NF Power competes for its executive resources with organizations*
38 *across the breadth and depth of business sectors across Canada."*

¹ See Hay Group report *Newfoundland Power – Review of Total Compensation for Senior Positions*,
September 9, 1998, filed in relation to Newfoundland Power's *1998 General Rate Application*. Expert
testimony relating to the report was provided by Hay Group's Mr. Ron Goldthorpe.

² See Order No. P.U. 36 (1998-99), page 41.

³ See, for example, *Board of Commissioners of Public Utilities Financial Consultants Report Newfoundland
Power Inc. – 2003 General Rate Application Hearing*, February 4, 2003, page 39.

⁴ See Order No. P.U. 19(2003), page 93 and Order No. P.U. 43 (2009), page 37.

1
2
3 “NF Power sets its pay standards relative to market Medians, which Hay
4 Group believes is reasonable because:

- 5
6 • As a utility it is appropriate to compare to an average of a broad
7 market place as opposed to only the higher paying sectors (e.g., gold
8 mining) or only to the lower paying sectors (e.g., retail); and
9
10 • NF Power incorporates performance considerations in its
11 determination of incumbent-specific salary and bonus values, such that
12 higher performers will be appropriately paid above market standard
13 (i.e., above P50), while those who have not yet proven themselves may
14 not be paid to market standards.”⁵
15

16 In considering this evidence, the Board found:

17
18 “... that Newfoundland Power must provide support for proposed
19 expenses and finds that, in this case, Newfoundland Power has provided
20 the necessary support. The executive compensation arrangements are
21 based on a previously approved approach, have been proportionally
22 consistent over the last several years, and are supported with specific
23 evidence from an expert witness...”⁶
24

25 For approximately two decades, Newfoundland Power has used a consistent market
26 reference for the purposes of establishing its executive salary policy. The reasons
27 supporting Newfoundland Power’s use of the broad based Canadian Industrial
28 Commercial comparator group to establish executive salary policy have not changed over
29 this period. Given this, the Company has not considered other comparator groups for the
30 purposes of establishing executive salary policy.
31

32 In every examination of Newfoundland Power’s executive salary policy since 1998, the
33 Board has found Newfoundland Power’s executive salary costs to be reasonable.

⁵ See Newfoundland Power’s 2010 General Rate Application, The Hay Group Limited’s Newfoundland Power Inc. Executive Compensation Review, September 21, 2009, pages 4-5, and Appendix C - 2009 Canadian Commercial Industrial Market, page 5.

⁶ See Order No. P.U. 43 (2009), page 37, lines 20-25.

The 2016/2017 Test Period Context

Test Period Executive Labour Costs

Table 1 shows Newfoundland Power’s regular and standby operating labour costs by employee type (executive, managerial and union).⁷

Table 1
Regular and Standby Labour by Employee Type
2013 to 2017F
(\$000s)

	2013	2014	2015F	2016F	2017F
Executive	1,816	1,764	1,684	1,725	1,768
Managerial	14,072	14,426	14,586	14,922	15,423
Union	12,847	13,488	13,187	13,611	14,051
	28,735	29,678	29,457	30,258	31,242

In the 2016/2017 test period, executive labour costs are expected to be marginally lower than those incurred in the 2013/2014 period.

Executive Labour as a Proportion of Total Labour

Table 2 shows the relative proportions of Newfoundland Power’s total labour costs broken down by executive, management employees and union employees for 2001, 2006, 2011 and the 2016/2017 test period.⁸

Table 2
Newfoundland Power
Regular Internal Labour by Employee Group (%)
2001, 2006, 2011 & 2016/2017F

	2001	2006	2011	2016F	2017F
Executive	4.2	3.6	3.0	2.7	2.7
Managerial	48.4	45.0	44.1	46.7	47.1
Union	47.4	51.4	52.9	50.6	50.2

⁷ Table 1, which shows *operating* labour costs (labour plus incentives), is also found in the response to Request for Information CA-NP-236. All executive labour costs are treated as operating labour costs.

⁸ Total labour costs, include all operating and capital labour, together with all cash incentives paid to employees.

1 In the 2016/2017 test period, the proportion of Newfoundland Power's total
2 labour costs attributable to executives is forecast to be 2.7%. This is
3 approximately 10% lower than the proportion in 2006 and 2011 and
4 approximately 36%, or 1/3rd, lower than the proportion in 2001.
5

6 **Summary**
7

8 The executive labour costs included in Newfoundland Power's 2016/2017
9 General Rate Application are based upon a salary policy consistent with that used
10 by the Company over approximately two decades. Executive labour costs based
11 upon this standard have consistently been approved for ratemaking purposes by
12 the Board since 1998.
13

14 The executive labour costs included in the 2016/2017 test period are consistent
15 with the actual labour costs incurred by the Company in the 2013/2014 period.
16

17 Looked at over a longer time horizon, the executive labour costs included in the
18 2016/2017 test period represent a lower proportion of Newfoundland Power's
19 total labour costs than in 2001, 2006 or 2011.