

1 **Q. Further to CA-NP-204, explain why the median of salaries paid by Atlantic**
2 **Canadian utility companies was selected as the basis for the salary policy for**
3 **managerial employees below the level of Director. In the response state the date it**
4 **was selected and the date last reviewed to determine its appropriateness and what**
5 **other target groups were considered and rejected.**

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7 A. Newfoundland Power targets the median level (i.e. 50th percentile) of the Atlantic
8 Canadian utility companies for its managerial compensation policy. The *median* level of
9 the comparator group represents the compensation values at which fifty percent of the
10 database observations pay less and fifty percent pay more.

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12 Newfoundland Power uses the median of salaries paid by Atlantic Canadian utility
13 companies as the basis of its managerial salary policy since it broadly reflects the
14 competitive labour market for those positions. The Company's approach to managerial
15 compensation, below the level of director, is largely unchanged since at least its 1998
16 General Rate Application.¹

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18 The competitive labour market for managerial positions is considered to be more
19 localized or regionalized than for executive and director level positions. In other words,
20 the likelihood that an employee in a lower level managerial position can find similar
21 employment in the local or regional labour market is higher than it would be for an
22 executive or director.² For this reason, Newfoundland Power uses the median of salaries
23 paid by Atlantic Canadian utility companies as the basis for the salary policy for
24 managerial employees while it uses the broad Canadian Industrial Commercial
25 comparator group for executives and directors.³

26
27 Newfoundland Power used the services of the Hay Group to establish its salary policies
28 and total cash compensation for managerial employees in 2013. Each year, the Company
29 also utilizes surveys and reports from other sources in determining the market movement
30 of its salary policies.⁴

¹ In Order No. P.U. 7 (1996-1997), the Board ordered Newfoundland Power to review executive and management compensation at its next rate hearing. Newfoundland Power's approach to employee compensation was subsequently reviewed by the Board in the Company's 1998 *General Rate Application*.

² See the October 26, 2009 direct testimony of Hay Group Limited's Karl Aboud filed in relation to Newfoundland Power's 2010 *General Rate Application*, at pages 73-76 for a detailed description of the relationship between geography and competitive labour markets.

³ See the response to Request for Information PUB-NP-074 for details regarding comparator groups for executive and director compensation.

⁴ See the response to Request for Information CA-NP-205 for information relating to other sources used by Newfoundland Power to assist in reviewing the reasonableness of its managerial compensation.

1 For approximately two decades, Newfoundland Power has used a consistent market
2 reference for the purposes of establishing its managerial salary policy. The reasons
3 supporting the Company's use of the median of the Atlantic Canadian utility comparator
4 group to establish managerial salary policy have not changed over this period. Given
5 this, Newfoundland Power has not considered other comparator groups for the purposes
6 of establishing managerial salary policy.