

Newfoundland Power Inc.

Executive Compensation Review

September 21, 2009

Prepared by: Karl Aboud

Project Scope

Newfoundland Power Inc. (NF Power) requested that Hay Group provide a reasonableness review of NF Power's compensation structure for its five senior executive positions being the President & CEO, the VP Engineering & Operations, the VP Finance & CFO, the VP Customer & Corporate Services, and the VP Regulatory Affairs & General Counsel.

The project mandate included that Hay Group would compare:

- NF Power executive jobs to others in the market place on the basis of similar job content (i.e., evaluation points), as has been one of NF Power's compensation principles for many years;
- NF Power compensation values to those of a broad selection of Canadian commercial industrial organizations (i.e., the comparator group), as has been one of NF Power's compensation principles for many years;
- NF Power pay values to the median level (i.e., 50th percentile) of the defined comparator group, as has been one of NF Power's compensation principles for many years; and
- NF Power's compensation package against all elements of compensation, which includes Annual Base Salary, Target Total Cash (i.e., base salary plus target bonus), Target Total Direct (i.e., total cash plus mid/long term incentive), and Target Total Remuneration (i.e., total direct plus benefits, pension, perquisites and time off).

This review has been prepared by Mr. Karl Aboud, Director of the Hay Group Canada Reward Practice. For reference please see Karl's resume in Appendix A.

Summary

In summary, Hay Group believes that:

- It is reasonable for NF Power to use comparative executive jobs within the broad Canadian Commercial Industrial market place as its comparator group;
- It is reasonable for NF Power to use the Median / 50th Percentile levels of comparator group compensation values as the basis by which to establish its own executive pay standards; and
- The NF Power incumbent-specific executive pay values are within the normal range of variance to its market pay standards that Hay Group typically experiences in these types of reviews.

Job Content / Job Evaluation

Every organization has unique attributes with respect to business lines, size, diversity, ownership, and corporate structure. Furthermore, the jobs within each organization are unique relative to factors such as mandates and reporting relationships. These attributes should be normalized when one compares themselves to the market place.

Hay Group uses its job evaluation methodology to “point score” positions. Job evaluation allows the skills, efforts, and responsibilities of a job to be quantified, such that the resulting points may be used as a comparison proxy that adjusts for the differences between the various comparator organizations and their unique job mandates. An organization’s jobs are compared to others in the market place on the basis of similar job content or job evaluation points. Highlights of the Hay Group Method of Job Evaluation are provided in Appendix B.

Each of the five NF Power executive jobs in question has been evaluated, and their Total Point evaluations are illustrated in Table 1, below. For example, the NF Power CEO role will be compared to the pay values of executive jobs in the market place that are represented by 2448 Total Points of job content.

Table 1 – NF Power Job Evaluations

| NF Power Jobs | Total Job Evaluation Points |
|---|-----------------------------|
| President & CEO | 2448 |
| VP Engineering & Operations | 1708 |
| VP Finance & CFO | 1500 |
| VP Customer & Corporate Services | 1418 |
| VP Regulatory Affairs & General Counsel | 1418 |

It should be noted that the evaluation process only concerns itself with the skills, efforts and responsibilities required for competent performance. The evaluation points do not reflect incumbent-specific characteristics such as performance.

Comparative Markets

The most current Hay Group compensation database is effective as of May 2009, and has 532 participating organizations. NF Power pay principles suggest that its jobs be compared to the Commercial Industrial subset of the database, which is comprised of 292 organizations, and for which the list is illustrated in Appendix C.

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

- Jobs are compared on a “point adjusted” basis which means they are compared to those of overall equal skill, effort and responsibility, and not on the basis of “same title”;
- The organizations are all “private sector / investor owned”; and
- NF Power competes for its executive resources with organizations across the breadth and depth of business sectors across Canada.

Percentile Levels

This review will present comparative values at three percentile levels, being:

- The 25th percentile, which represents the compensation values at which twenty-five percent of the database observations pay less and seventy-five percent pay more;
- The 50th percentile (i.e., median), which represents the compensation values at which fifty percent of the database observations pay less and fifty percent pay more; and
- The 75th percentile, which represents the compensation values at which seventy-five percent of the database observations pay less and twenty-five percent pay more.

NF Power sets its pay standards relative to market Medians, which Hay Group believes is reasonable because:

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

Compensation Elements

The review will consider the compensation elements as listed and defined below.

| | |
|----------------------------------|--|
| Actual Base Salary | The actual annual salary paid to the comparable database observations. |
| Target Total Cash | Actual base salary plus an annual bonus value that represents the targeted bonus award assuming that all bonus provisions are accomplished exactly to business plan. |
| Target Total Direct | Target total cash plus a mid/long term incentive value that represents the annualized present value of the targeted number of mid/long term incentive grants. The NF Power LTI program is defined by the specifications of the Fortis Inc. stock option program. NF Power advises that the cost of the LTI program is a non-regulated expense. |
| Target Total Remuneration | <p>Target total direct plus a noncash value that is the sum of the employer paid costs of the organization's benefit, perquisite, pay-for-time not worked, and retirement programs.</p> <p>Further explanation of the calculation of the employer's cost of the noncash items is found in Appendix D.</p> |

Compensation Analysis

Table 2, below, illustrates compensation values for each NF Power executive as well as for the comparable market place, and compares the NF Power values to the median values of the market.

Table 2 – Compensation Values

| Title | Statistic | Actual Base Salary (\$) | Target Total Cash (\$) | LTI Value* (\$) | Target Total Direct (\$) | Target Total Remuneration (\$) |
|---|-------------------|----------------------------|---------------------------|--------------------|-----------------------------|-----------------------------------|
| President & CEO | | 370,000 | 518,000 | 227,300 | 745,300 | 881,400 |
| | P75 | 423,800 | 636,300 | 389,000 | 1,025,300 | 1,165,900 |
| | P50 | 356,100 | 540,300 | 198,500 | 738,800 | 882,200 |
| | P25 | 313,300 | 458,700 | 95,000 | 553,700 | 650,500 |
| | NP vs. P50 | 3.9% | -4.1% | 14.5% | 0.9% | -0.1% |
| VP, Engineering & Operations | | 250,000 | 325,000 | 76,800 | 401,800 | 493,300 |
| | P75 | 300,200 | 435,300 | 149,400 | 584,700 | 671,400 |
| | P50 | 244,300 | 347,500 | 76,800 | 424,300 | 492,800 |
| | P25 | 210,200 | 286,000 | 40,600 | 326,600 | 388,200 |
| | NP vs. P50 | 2.3% | -6.5% | 0.0% | -5.3% | 0.1% |
| VP, Finance & CFO | | 220,000 | 286,000 | 67,600 | 353,600 | 435,900 |
| | P75 | 255,300 | 362,800 | 105,900 | 468,700 | 546,200 |
| | P50 | 216,100 | 295,500 | 48,800 | 344,300 | 404,600 |
| | P25 | 189,200 | 248,500 | 23,100 | 271,600 | 325,100 |
| | NP vs. P50 | 1.8% | -3.2% | 38.5% | 2.7% | 7.7% |
| VP, Customer & Corporate Services | | 210,000 | 273,000 | 64,500 | 337,500 | 416,500 |
| | P75 | 236,800 | 331,000 | 92,100 | 423,100 | 497,600 |
| | P50 | 204,700 | 273,400 | 41,000 | 314,400 | 371,000 |
| | P25 | 181,600 | 233,900 | 17,200 | 251,100 | 303,400 |
| | NP vs. P50 | 2.6% | -0.1% | 57.3% | 7.3% | 12.3% |
| VP, Regulatory Affairs & General Counsel | | 225,000 | 292,500 | 69,100 | 361,600 | 454,000 |
| | P75 | 236,800 | 331,000 | 92,100 | 423,100 | 497,600 |
| | P50 | 204,700 | 273,400 | 41,000 | 314,400 | 371,000 |
| | P25 | 181,600 | 233,900 | 17,200 | 251,100 | 303,400 |
| | NP vs. P50 | 9.9% | 7.0% | 68.5% | 15.0% | 22.4% |

* For Newfoundland Power, this represents the annualized present value of the target option grants of the Fortis Stock Option plan.

For the market, this represents the annualized present value of long term incentives required to maintain the respective percentile levels.

Karl Aboud

Toronto, Canada



Overview

Karl Aboud is the National Director of Hay Group Canada's Reward Consulting Practice.

The Reward Consulting Practice includes executive compensation, job measurement, incentive design, market pricing, performance management, and salary structure.

Karl joined Hay Group in 1990, and is based in the Toronto office.

Client Sectors

The Reward Practice provides its service offerings to a wide variety of industries, including financial services, manufacturing, utilities, transportation, pharmaceutical, retail/wholesale and the public sector, and is active across all provinces of Canada.

Karl's Education and Affiliations

Karl earned his Bachelor of Business Administration from Bishop's University in 1976, and his Masters Business Administration from The University of Western Ontario in 1982.

Karl is a frequent speaker & presenter at many Human Resource affiliations across Canada, has published many compensation oriented journal articles, and was one of the co-authors of a Hay Group text entitled *The Manager's Guide to Rewards*.

Prior to joining Hay Group, Karl was Manager Investment Banking, RBC Financial, and was also Director of Compensation for Moore Corporation Limited.

Contact

Email: karl.aboud@haygroup.com

Tel: +1.416.815.6410

Appendix B – Hay Group Method of Job Evaluation

To date, the Hay Group Method has been used to evaluate hundreds of thousands of clerical, blue collar, technical, professional, sales and managerial jobs within a wide variety of private and public sector organizations.

The focus of the job evaluation process using the Hay Group Method is on the nature and requirements of the job itself, not on the capabilities, background, personal characteristics, or the current salary of the job holder.

The Hay Group Method is based on the premise that jobs can be grouped in terms of the **knowledge** required to do the job, the **thinking** needed to solve the problems commonly faced, and the **responsibilities** assigned to the jobs.

The Hay Group Method is reflected in Guide Charts used to define each factor and provide quantitative measures that form the basis for evaluation.

By focusing on the important aspects of the content of each job and the end results which each is expected to achieve, the Hay Group Method provides a vehicle for systematically assessing the relationships among various positions and their relative value to the organization.

Additional safeguards are built-in to ensure that the final evaluations are free of bias. The Hay Group Method provides a rational, disciplined approach to job evaluation.

With 7 offices in Canada, 18 in the U.S.A. and 7,000 clients serviced from 64 offices in 28 countries worldwide, Hay Group Limited is the largest Human Resources consulting firm in the world.

In Canada, Hay Group has worked with over 1,500 organizations in both public and private sectors. In the private sector, a list of our clients utilizing the Hay Group Guide Chart Method includes almost one half of Fortune's 500 companies and over 80% of the Financial Post's Top 100 companies in Canada and 50% of the Top 1,000 companies in Canada.

The Hay Group Guide Chart factors are listed as follows.

➤ **Know-How**

- Practical, technical, or specialized knowledge and skill (depth and/or breadth)
- Planning, Organizing & Integrating Knowledge
- Communicating & Influencing Skills

➤ **Problem Solving**

- Thinking Environment – Freedom to Think
- Thinking Challenge

➤ **Accountability**

- Freedom to Act
- Nature of Impact
- Magnitude of Impact

Appendix C – 2009 Canadian Commercial Industrial Market

| | |
|--|--|
| A&W Food Services of Canada Inc. | Belden CDT (Canada) Inc. |
| ACA Co-operative Limited | Biovail Corporation |
| ATCO I-Tek | Boehringer Ingelheim (Canada) Ltd. |
| AV Nackawic Inc. | Bonduelle North America Inc. |
| Abbott Laboratories, Limited | Bronswerk Marine Inc. |
| Agfa Healthcare Canada | Bruce Power |
| Agfa Inc. | Bunge North America |
| Agnico-Eagle Mines Limited | CHEP Canada |
| Ainsworth Engineered Canada L. P. | CKF Inc. |
| Air Products Canada Ltd. | CMA Holdings Inc. |
| Aker Chemetics | CNH America, LLC. |
| Alberta-Pacific Forest Industries Inc. | Cabot Canada Ltd. |
| Alcon Canada Inc. | Cadbury North America |
| Allergan Canada Inc. | Campbell Company of Canada |
| AltaSteel Ltd. | Canadelle Inc. |
| Aluminerie Alouette Inc. | Canadian Forest Products Ltd. |
| Amgen Canada Inc. | Canadian Freightways Limited |
| Andrew Peller Limited | Canadian National Railway Company |
| Apotex Inc. | Canadian Pacific Railway |
| ArcelorMittal Dofasco Inc. | Canexus Limited |
| ArcelorMittal P&T | Canfor Pulp Limited Partnership |
| ArcelorMittal Tubular Products - Automotive Division | Canon Canada Inc. |
| ArcelorMittal Tubular Products Corporation | Canpotex Limited |
| Arkema Canada Inc. | Cargill Limited |
| Arrow Transportation Systems Inc. | Caterpillar of Canada Corporation |
| Ashland Distribution | Centerra Gold Inc. |
| Ashland Global Chemicals | Chemtura Canada Co Cie |
| Ashland Performance Materials | Ciba Canada Ltd. |
| Ashland Water Technologies | Cognis Canada Corporation |
| Astellas Pharma Canada Inc. | Compass Group Canada |
| AstraZeneca Canada Inc. | Co-op Atlantic |
| Atlantic Packaging Products Ltd. | Cooper B-Line |
| Atotech Canada Ltd. | Cooper Bussmann |
| Axcan Pharma Inc. | Cooper Crouse Hinds |
| BASF Canada Inc. | Cooper Lighting |
| BHP Billiton - Ekati Diamond Mines | Cooper Power Systems |
| Babcock & Wilcox Canada | Cooper Power Tools |
| BakeMark Ingredients Canada Ltd. | Cooper Wiring Devices |
| Barrick Gold Corporation | Corby Distilleries Limited |
| Barry Callebaut Canada Inc. | Country Ribbon Inc. |
| Baxter Corporation | Covance (Canada) Inc. |
| The Bay | Cytec Canada Inc. |
| Bayer Inc. | DSM Nutritional Products Canada Inc. |
| The Beer Store | Daishowa-Marubeni International Ltd. |
| Beiersdorf Canada Inc. | Danfoss Inc. |
| Bekaert Canada | De Beers Canada Inc., Corporate Division |
| | De Beers Canada Inc., Exploration Division |

De Beers Canada Inc., Mining Division
 Deeley Harley-Davidson Canada
 Diavik Diamond Mines Inc.
 Dow Chemical Canada Inc.
 Dr. Oetker Ltd.
 Dundee Precious Metals
 Dyno Nobel Canada Inc.
 EFW Radiology
 E.I. du Pont Canada Company
 ERCO Worldwide
 EWOS Canada Ltd.
 Eaton Corporation
 Eli Lilly Canada Inc.
 Elkem Métal Canada Inc.
 Enbridge Gas Distribution Inc.
 Essar Steel Algoma Inc.
 Evonik Degussa Canada Inc.
 FANUC AMERICA Corporation
 FNX Mining Company Inc.
 Fedex Kinko's Canada Limited
 Ferrero Canada Limited Commercial Division
 Finning (Canada)
 Finning International Inc.
 Fortis Inc.
 Fortis Ontario Inc.
 Fortis Properties
 FortisAlberta Inc.
 FortisBC Inc.
 Fraser Papers Inc.
 FundSERV Inc.
 G4S Cash Services (Canada) Ltd.
 Gates Canada Inc.
 General Kinetics Engineering Corporation
 GlaxoSmithKline Inc.
 Goldcorp Inc.
 Goodrich Aerospace Canada Ltd.
 Grand & Toy
 Griffith Laboratories Limited
 HDS Retail North America
 H.J. Heinz Company of Canada Ltd.
 Hecla Mining Company
 Hilti (Canada) Ltd.
 Hitachi Canadian Industries Ltd.
 Hobart Food Equipment Services Canada
 Hoffmann-La Roche Ltd.
 Hudson's Bay Company
 HumanWare
 Hydro Technologies (Canada) Inc.
 IAMGOLD Corporation
 INEOS Canada Partnership
 INVISTA (Canada) Company
 Ingersoll-Rand Canada Inc.

Innophos Canada Inc.
 Interquisa Canada
 Intrawest ULC
 Iovate Health Sciences Services Inc.
 Iron Ore Company of Canada
 J. Ennis Fabrics Ltd.
 JTI-Macdonald Corp.
 John Deere Limited Canada
 K.I. Pembroke
 KPMG MSLP
 KPSS Canada Ltd.
 Karl Storz Endoscopy Canada Ltd.
 Kasian Architecture Interior Design and Planning Ltd.
 Katz Group Canada Ltd.
 Kellogg Canada Inc.
 Kemira Chemicals Canada Inc.
 Kennametal Ltd.
 Kinross Gold Corporation
 Kruger Products
 Kuehne + Nagel Ltd.
 LANXESS Inc.
 Labatt Breweries of Canada
 Lake Shore Gold Corp.
 Lantic Sugar Limited
 Lehigh Hanson
 Levi Strauss & Co. (Canada) Inc.
 Lilydale Inc.
 Linde Canada Limited
 LoyaltyOne Inc.
 MDA
 Mainstream Canada Ltd.
 Maritime Electric Company
 Mark Anthony Group
 McCormick Canada Co.
 McElhanney Consulting Services Ltd.
 The McElhanney Group Ltd.
 McElhanney Land Surveys Ltd.
 Merck Frosst Canada & Co.
 Meridian Technologies Inc.
 Minas Basin Pulp & Power Co. Ltd.
 Mitsubishi Canada Limited
 Mittal Canada Contrecoeur-Ouest Inc.
 Mittal Canada Hamilton Inc.
 Mittal Canada Inc.
 Mittal Canada Lachine Inc.
 Mittal Canada Saint-Patrick Inc.
 Montship Inc.
 The Mosaic Company
 Mother Parker's Tea & Coffee Inc.
 Mustang Survival Corp.
 NOVA Chemicals Corporation

| | |
|--|---|
| Navtech Systems Support Inc. | Saint-Gobain Advanced Ceramics Hamilton |
| Neopost Canada | Sandoz Canada Inc. |
| Nestlé Canada Inc. | sanofi-aventis |
| New Horizon System Solutions LP | Schneider Electric |
| Newfoundland Power Inc. | Securit Group of Companies |
| Newmont Mining Corporation of Canada Limited | The Shaw Group Limited |
| North Atlantic Refining | Sherritt Coal |
| Northern Pulp Nova Scotia Corp. | Sherritt International Corporation |
| Nova Scotia Power Inc. | Sico Inc. |
| NovaGold Resources Inc. | Sidel Canada Inc. |
| Novartis Pharmaceuticals Canada Inc. | Siemens Canada Limited |
| Novo Nordisk Canada | Skretting |
| Nycomed Canada Inc. | Solvay Pharma Inc. |
| OZ Minerals Canada Resources Inc. | Sonoco Canada Corporation |
| Oakrun Farm Bakery Ltd. | Sultran Ltd. |
| L'Oréal Canada Inc. | Taro Pharmaceuticals Inc. |
| Osler, Hoskin & Harcourt, LLP | Teck Resources Limited |
| PPG Canada Inc. | Teck Resources Limited - Highland Valley Copper |
| PPG Canada Inc. - Automotive Glass Division | Teck Resources Limited - Trail Operation |
| PPG Canada Inc. - Fine Chemicals Division | Teekay Corporation |
| PPG Canada Inc. - Industrial Coatings Division | Telvent Canada Ltd. |
| PPG Canada Inc. - Performance Glazing Division | Tembec Inc. |
| Pan American Silver Corporation | Terasen Gas |
| Patheon Inc. | Thales Rail Signalling Solutions |
| Peak Potentials Training | Thompson Creek Metals Company |
| Penske Truck Leasing | Thrifty Foods Inc. |
| Pepsi-QTG Canada | TimberWest Forest Corp. |
| Petro-Canada | Tolko Industries Ltd. |
| Pfizer Canada Inc. | Toromont CAT, A Division of Toromont Industries Ltd. |
| Phantom Mfg. (Int'l) Ltd. | Ultramar Ltée |
| Philips Electronics Ltd. | uniPHARM Wholesale Drugs Ltd. |
| Pioneer Hi-Bred Limited | Vale Inco Limited |
| Potash Corporation of Saskatchewan Inc. | Valeant Canada Limited |
| Praxair Canada Inc. | Valvoline |
| Puratos Canada Inc. | Vanguard Plastics Ltd. |
| QIT-Fer et Titane Inc. | Vicwest Income Fund |
| Resolve Corporation | Viterra Inc. |
| Rhodia Canada Inc. | W.E.T. Automotive Systems Ltd. |
| Rio Tinto Alcan | Wal-Mart Canada Corp. |
| Rio Tinto Copper Projects | Winners Merchants International L.P. |
| Ritchie Bros. Auctioneers (Canada) Ltd. | Wyeth Pharmaceuticals |
| Rogers Sugar Ltd. | Xstrata Copper Canada |
| Rohm and Haas Canada Inc. | Xstrata Nickel Canada |
| Rothmans Benson & Hedges Inc. | Xstrata Zinc Canada |
| Russel Metals Inc. | Yves Rocher |
| SABIC Innovative Plastics Canada Incorporated | Zellers |
| SMS Construction and Mining Systems Inc. | Zellstoff Celgar Partnership Limited |
| SMS Equipment Inc. | |
| Saint-Gobain Abrasives Canada Inc. | |

Appendix D – Cash Equivalent Values

Noncash Compensation An organization's cost for a noncash program is subject to numerous variables, such as composition of the group, experience, funding method, skill of the buyer and a company's accounting practices. Thus, programs with identical formulae can have widely differing costs from organization to organization or even from unit to unit within an organization. However, the value of a noncash item to a particular employee is primarily dependent on the level of benefit, perquisite or time off provided, not on the average age of the employees in the organization or the method chosen by the employer to fund the program.

Therefore, standard cost assumptions were derived. For noncash items which are conditional on the occurrence of an event such as death, disability or continuous employment in an organization, the cash equivalent has been calculated on the basis of the probability of receiving such items, using appropriate actuarial assumptions. For noncash items such as cars, loans and subsidized meals, which have immediate value, the cash equivalent has been calculated on the basis of the most probable average current replacement cost.

Employee Contributions Noncash compensation includes only the employer-paid value. Employee contributions are subtracted from the total value to obtain the employer paid amount.