

1 **Q. Please provide copies of all reports provided to Management in respect of employee**  
2 **benefits/compensation from 2007 to present.**

3  
4 A. Since 2007, Newfoundland Power has not generated formal reports internally, and has  
5 not commissioned external reports, with a specific focus on employee benefits.

6  
7 Attachment A is the Hay Group January 2007 Analysis of Executive Compensation. This  
8 report provides the basis of current executive compensation practices at Newfoundland  
9 Power.

10  
11 Newfoundland Power uses the services of Hay Group to assist in determining appropriate  
12 compensation for its management employees. The Company subscribes to Hay Group's  
13 PayNET service (an on-line product that provides market information on jobs below the  
14 executive level) and orders selected analyses on management positions below the  
15 executive level as required.

16  
17 In Order No. P.U. 27 (1998-99) the Board determined that copies of every letter,  
18 memoranda, etc. between the Company and Hay Group was not useful or necessary.  
19 Accordingly, the Company has not produced every piece of correspondence between it  
20 and Hay Group since 2007.

21  
22 Please refer to the response for Request for Information in CA-NP-123.

**Analysis of Executive Compensation**  
**January 2007**  
**Prepared by: David Crane**  
**Hay Group**

# Report

**HayGroup®**

## **Newfoundland Power Inc.**

### **Analysis of Executive Compensation**

Prepared By: David Crane

Date: January 2007

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## I. Introduction

Hay Group has recently completed a review of current competitive compensation practices and has recommended appropriate changes to executive compensation practice of Newfoundland Power. The following specific areas have been examined by the consultant:

- How executive roles at Newfoundland Power are ranked relative to one another using the Hay evaluation method;
- The competitive reference market against which executive compensation is to be compared; and
- Existing practices of the components of executive compensation.

## **II. Market**

### ***1. Market***

Newfoundland Power has historically compared executive salaries to a broad selection of commercial industrial companies that provide compensation data to the Hay Group. It is recommended that Newfoundland Power should continue to compare executive compensation to this reference group.

### ***2. Market Reference***

The “median” of market practice is that point where half the observations are greater and half are smaller; it is the 50<sup>th</sup> percentile. Executive salary policy at Newfoundland Power is currently based upon the median of actual salary practice within the reference group.

It is recommended that Newfoundland Power should continue to set salary range midpoints at the median of actual salary practice in the market. The market data provided in Appendix A accordingly reflects median market actual salaries.

It is further recommended that the aggregate value of all elements of compensation (i.e. including incentives, pensions, employment perquisites, etc.) should also approximate market median.

### ***3. Evaluation***

Hay Group was asked to review the ranking of all executive positions at Newfoundland Power using the Hay Job Evaluation Method to ensure that consistent compensation comparisons to the market continue to be provided.

Our understanding of the accountabilities of each position was prepared in 2004, illustrated in Appendix B. In 2006, Hay reviewed the content of each role with the President & CEO of Newfoundland Power who confirmed that the scope of each executive position had not changed. The evaluations used in this analysis are accordingly unchanged from previous years.

### ***4. Eligibility***

Only individuals whose role has been evaluated at or above 1400 Hay points are considered to be executives for this review.

## 5. *Salary Range Maximum*

The current practice specifies that actual salary may not exceed 110% of the salary range midpoint. The vast majority of commercial industrial allow salaries to exceed the midpoint by up to 20% (more in some cases). The existing practice of limiting salaries to 110% of the range midpoint is accordingly conservative.

Some additional flexibility is desirable, such as when “high potential” individuals are transferred into a development role with a lower salary range. It is right to pay more than the job rate in the interests of succession planning while the high-potential employee remains in the role.

Similarly, where specific skills are in high demand in the market place, exceeding the job rate for as long as the market conditions persist may well be appropriate.

Reasonable flexibility also facilitates common sense salary administration practices that preserve both individual motivation and overall equity.

It is recommended that actual executive salaries continue to be allowed to exceed 110% of the salary range midpoint only under special circumstances recommended by the President & CEO and approved by the Board of Directors.

## 6. *Annual Short Term Incentive Targets*

The CEO has been eligible for a target bonus of 35% of salary.

Following a review of market practice, the following recommendation is made based on market median. No changes are proposed for Vice Presidents.

***Table 1 – Proposed Target Short Term Incentive as a % of Salary***

Position	Proposed Short Term Incentive	
	Target	Maximum*
President	40%	60%
Vice Presidents	30%	45%

\* The maximum is 150% of target. An additional 50% of target is available at the discretion of the Board of Directors.

### ***7. Stock Option Grants***

Based on a review of 2006 market practice, it is proposed that the maximum stock option grant for the President and CEO be increased from 250% to 300% of salary. No change is recommended for Vice Presidents.

### ***8. Minimum Executive Ownership***

Starting January 1, 2009, where an executive has been granted options for five or more prior years, the maximum number of shares for which options will be granted in any calendar year will not exceed the minimum of shares held by the executive since the beginning of the previous calendar year.



## Appendix A – Ranking of Executive Positions

### 2006 Hay Evaluations & Salary Comparisons

Position	Incumbent	Only Commercial Industrials			
		Hay 2006 Evaluation	Base Salary Actual 2006	2006 Market Median (rounded to \$000)	Actual Salary as % of 2006 Market Median
President & CEO	K. Smith	2448	315,000	311,000	101%
VP Engineering & Operations	P. Delaney	1708	207,000	217,000	95%
VP Finance & CFO	J. Perry	1500	170,000	195,000	87%
VP Customer Relations & Corporate Services	L. Hutchens	1418	188,000	187,000	101%
VP Regulatory Affairs & General Counsel	P. Alteen	1418	190,000	187,000	102%

## Appendix B – Summary/Accountabilities of Executive Roles at Newfoundland Power

### NEWFOUNDLAND POWER

	<b>President &amp; CEO</b>	<b>VP Engineering &amp; Operations</b>	<b>VP Finance &amp; CFO</b>	<b>VP Customer Relations &amp; Corporate Services</b>	<b>VP Regulatory Affairs &amp; General Counsel</b>
<b>Functions</b>	All Business Functions	Transmission/Distribution Operations Power Generation Planning & Engineering Fleet/Transportation Stores/Warehousing Third Party & Provisioning Services	Financial and Regulatory Planning Budgetary Oversight and Control Financial and Corporate Reporting Corporate Governance and Management Control Corporate Development	Customer Service Information Technology Human Resources Corporate Communications Purchasing & Procurement Environment/Safety	Regulatory Policy Legal Regulatory Hearings & Compliance Corporate Secretary
<b>Unique Accountabilities Of This Role</b>	<ul style="list-style-type: none"> <li>▪ Determine strategic direction</li> <li>▪ Ensure safe, cost effective provision of all aspects of customer service in a fully regulated environment</li> <li>▪ Provincial energy policy and direction / public policy oversight</li> <li>▪ Nature of business requires leadership in external communication</li> </ul>	<ul style="list-style-type: none"> <li>▪ Breadth of function - Operations and Engineering</li> <li>▪ Most challenging weather conditions in North America</li> <li>▪ Meeting urban/rural service expectations</li> <li>▪ Public and employee safety</li> </ul>	<ul style="list-style-type: none"> <li>▪ Financial planning key component of customer rate stability</li> <li>▪ Public capital markets: financing and disclosure</li> <li>▪ Government Relations</li> <li>▪ Corporate Governance</li> <li>▪ Business Continuity &amp; Risk</li> </ul>	<ul style="list-style-type: none"> <li>▪ Customer service is leading differentiating factor in monopoly environment</li> <li>▪ Multifaceted call centre operation</li> <li>▪ Environmental oversight inclusive of ISO 14001 / environmentally challenging environment</li> <li>▪ Changing technological environment</li> </ul>	<ul style="list-style-type: none"> <li>▪ Complex, dynamic, public and challenging regulatory environment</li> <li>▪ Strategic development</li> <li>▪ Evolving securities law and governance standards</li> </ul>