Q. Further to PUB-NLH-302, does Hydro have written advice from its compensation consultants that addresses Hydro's selection of its comparator groups for 1) Union Positions 2) Non-Union Positions Below Executive 3) Executive. Please provide all such advice received over the past 5 years.

A. Hydro's selection of an appropriate comparator group is based on defining markets where it attracts and competes for employees. Mercer Consulting has reviewed Hydro's comparator groups as part of the Non-Union and Executive Compensation Reviews completed in 2010 and 2011.

Mercer suggested an appropriate comparator group for Hydro positions below the executive level to be Atlantic Canada and within the Utility Sector (see CA-NLH-266, Attachment 1). The appropriate comparator group for Hydro Executive positions is a broad cross-section of the Canadian Industry and companies of similar size (revenue) to that of Nalcor (Hydro). A secondary market for Executive positions was defined to be all utilities (national market) participating in the Mercer Total Compensation Survey. CA-NLH-261, Attachment 1, provides an excerpt from the Mercer Executive Compensation Review[1].

[1] Mercer has provided authorization to release the excerpt in CA-NLH-261, Attachment 1 in response to this question.

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14 February 2011

Nalcor Energy
Executive Compensation Review

Introduction

- Mercer has been asked by Nalcor Energy ("Nalcor") to provide advice on executive compensation including:
  - Establishing the company's compensation philosophy
  - Establishing position matches for 10 executive positions
  - Comparator group selection
  - Assessing the competitiveness of base salary, total cash compensation (salary plus short-term incentives), and total direct compensation (total cash plus the annualized value of long-term incentives) for each executive
  - Constructing an executive salary structure and compensation mix
  - Reviewing prevailing practices for variable pay
    - Recommending short- and long-term incentive practices in light of prevailing practices in the market
  - Reviewing perquisites compared to Nalcor's
  - Analyzing the financial impact of executive compensation structures
  - Recommending changes where warranted

- This report presents our findings and recommendations

Methodology – Competitive Review
Comparator Groups

- In discussion with the VP Human Resources and Organizational Effectiveness, we established the following comparator groups for purposes of benchmarking executive positions:

Comparator Groups[1]	Rationale
Primary: A broad cross-section of Canadian companies (excluding financial, education, healthcare and pharmaceutical industries) with revenues in the range of $300 million to $1.2 billion (approximately 50% to 200% of Nalcor's current revenues)	Nalcor attracts and potentially loses executive talent across a broad cross section of Canadian industry The revenue range is standard methodology used for benchmarking
Secondary: All utilities participating in Mercer's MTCS survey	Nalcor's largest business unit and a number of smaller units are aligned with the utilities industry All participants in the MTCS survey within the utilities sector have been included; no revenue range was applied
Supplementary: A broad cross-section of Canadian companies (excluding financial, education, healthcare and pharmaceutical industries) with revenues in the range of $1 billion to $4 billion (see Appendix B)	This data set will support executive compensation planning as Nalcor grows over the next 3 to 5 years
E&P: Oil and gas exploration and production companies from Mercer's MTCS survey (oil and gas) with production of 5,000 BOE to 20,000 BOE (see Appendix B)	Used for purposes of benchmarking senior executive positions in Nalcor's oil and gas business unit

- Additionally, publicly disclosed compensation data for a group of Canadian utilities companies is provided in Appendix C

1) *We provided detailed participant lists to Nalcor via email on January 31, 2011*