Q. **2013 General Rate Application, Workforce**

Page 2.17, lines 11-13 and page 2.18, lines 1-8 - It is stated non-union salary adjustments over the period 2007 to 2012 were required "*to ensure Hydro is more competitive with the external labour market*". Explain how Hydro determined the adjustments required, including the external labour market information considered, the sources of information on such market, the positions reviewed, the process followed, the average increase given to non-union positions each year over the period 2007 to 2012, the cumulative increase over the total period and any special adjustments given.

A. Non-union salary adjustments were required over 2007 to 2012 to ensure that Hydro maintained competitiveness to the external labour market as well as to realign its internal equity with normal industry practices. The following outlines the external influences and considerations that impacted non-union increases.

Union Wage Influence (2007)

The conclusion of the collective bargaining process in 2007 resulted in a special wage adjustment for trade and craft positions. Hydro adjusted its Pay Grades 9 and above in 2007, 2008, and 2009 to bring Hydro rates in line with the other Atlantic Canada Utilities. While Hydro applied a general increase to non-union salaries in those years, the trade and craft position adjustments eroded the differential between these positions and Front Line Supervisors.

Front Line Supervisor Adjustment

Hydro's ability to recruit, retain, and motivate high quality leaders in front line non-union positions was compromised as a result of the eroded differential. Hydro initiated a review of external benchmarks within the Atlantic Canada Electric Utilities which validated that other utilities provided adjustments for their Front Line Supervisors for similar reasons to maintain historical differentials. Hydro therefore implemented a Front Line Supervisor adjustment for operation supervisors in June of 2008, which was retroactive to April 1, 2007.

Union Wage Influence (2010)

Hydro negotiated a 6.5 % general wage adjustment in year one of the collective agreement. Further, a pay group adjustment (upward by one group level) for all classifications in Groups 9 and above of the Operations Agreement was negotiated, which resulted in an hourly wage increase of 4.8 % for these trades and technology occupations. This increase realigned wages with other Atlantic Canada Electric Utilities. While non-union adjustments match negotiated wage increases for union, there was further erosion between unionized workers and their respective supervisory positions.

External Consultant Review (2010)

In late 2010, Mercer (a compensation consultant) was engaged to undertake a comprehensive review of salary policies and structures relating to non-union compensation on behalf of Nalcor. The review reflected that Hydro had fallen behind its reference market (the Atlantic Canada Electric Utilities) at the higher pay grades (Pay Grades 11 to 18). As a result, effective April 1, 2012, Hydro adjusted its non-union pay grades in Hay 11 to Hay 18 to realign relative to the market. CA-NLH-105 provides the detail regarding this adjustment to its non-union pay scales. Hydro made a conservative decision to have employees progress to these new job rates through the normal salary administration process as opposed to applying the percentages directly to salaries (i.e., over a two-three year period versus all in year one). The pay scale adjustments were in addition to the general economic increases of 6.5%, 4%, and 4% provided in 2010, 2011, and 2012, respectively.

Table 1 summarizes the general economic increases as well as the average actual salary increase that resulted for non-union employees from 2007 to 2012. Actual increases are higher than general economic adjustments owing to influences of step progression, merit and the special Front-Line Supervisor adjustment, where required for operational supervisors to preserve differentials.

Table 1
Non-Union Salary Increases[1]
2007 – 2012

Year (April 1)	General Economic Adjustment	Average "Actual" Increase[2]
2007[3]	3.0%	4%
2008[3]	3.0%	4%
2009	3.0%	4.56%
2010	6.5%	8.92%
2011	4.0%	4.76%
2012	4.0%	5.77%

Overall, Hydro's salary adjustments for non-union employees align Hydro relative to its comparator market. The adjustment to its non-union pay scales was conservative relative to the Mercer recommendations (see CA-NLH-105). Hydro's approach for its non-union compensation is to be competitively positioned with other Atlantic Canada Electric Utilities as well as to recognize best practices which are common in the industry.

[1] Increases include general wage adjustments, progression and merit increases as well as Front Line Supervisor adjustments (where applicable).
[2] Non-union salary administration is effective April 1 of each year. The increases reflected above are a direct comparison of the difference between April 1 implementation and the beginning salaries before adjustment.
[3] The Front Line Supervisor Adjustment was implemented in June 2008 (retroactive to April 1, 2007) and applied after the April 1 salary increases. As a result, the FLS increases for these years are reflected in 2009.