

1 Q. (Reference 2017 GRA Volume I) Please provide a copy of the Hydro's bonus policy.

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4 A. The Nalcor Non-Union Salary Program policy regarding Hydro's short term

5 incentives (performance contracts) is provided in CA-NLH-138, Attachment 1.



Policy Number: CB-2

Non-Union Salary Program

Policy Group: HROE
Compensation and Benefits
Compensation and Benefits

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Policy Owner: Manager Human Resources

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Policy Title:	Non-Union Salary Program
Policy Group:	HROE Compensation and Benefits Compensation and Benefits
Policy Number:	CB-2
Policy Owner:	CN=Nicole Parsons/O=NLHydro

Policy Statement

An important element of Nalcor's human resources strategy is to ensure that its total compensation program is a comprehensive and fair one. A key component of this program is the Company's salary structure for non-union employees, and Nalcor is committed to ensuring that its non-union compensation system meets all necessary requirements from both an internal and external equity standpoint.

Purpose

The purpose of this policy is to confirm the key principles underlying Nalcor's approach to salary compensation for its non-union employees, and to outline the key components of its salary program.

Guiding Principles

1. Competitive salary compensation is a necessary, critical component of the Company's multi-faceted approach to employee remuneration which fundamentally enables the Company's ability to attract, retain, and motivate the talented individuals required to grow and sustain a high performance organization.
2. Both internal and external equity are key considerations in the design of salary systems and the determination of compensation levels. In addition to maintaining appropriate internal relativities, Nalcor's salary structures must ensure the Company is always competitive in the relevant external reference markets in which it competes for people and skills.
3. Individual performance that consistently exceeds expectations should be recognized and appropriately rewarded. Similarly, individual performance which consistently falls short of role requirements should be reflected in compensation.

Definitions and Terms

Economic Adjustment: This refers to the amount by which the Company's non-union salary scales are adjusted (normally annually) for the purpose of keeping pace with increases in the cost of living and other external market indicators.

Hay Level (HL): The Company uses the Hay Group job evaluation methodology to determine the value of a given job relative to others within the organization. Jobs with similar total point values are clustered into pay groups referenced as "Hay Levels".

Job Evaluation: This is a process used to determine the value of a given job relative to all others within an organization, which takes into account the nature and scope of each position in reference to a standard set of evaluation criteria (e.g., know-how and problem-solving requirements, supervisory and budget accountabilities, etc.).

Job Rate: This is the pay rate associated with competent performance of the full scope of a job's requirements, and represents 100% of the salary range for the position (i.e., the top of the salary scale). This is also the reference point used for comparisons made against external reference markets.

Merit Adjustment: This is an adjustment to the base salary of an employee who is not yet at his/her Job Rate based on a review of the employee's performance. Performance reviews are conducted at least annually as part of the Company's performance management system.

Progression: Progression refers to the periodic movement of an employee through a salary scale towards the Job Rate for his/her position.

Reference Market: The market which is used for benchmarking purposes when comparing the competitive position of a given employee or skill group at Nalcor against the external market.

Scope of Application

This policy applies to all non-union employees of Nalcor and its subsidiary companies. Salaries and wages for union employees are governed by the respective collective agreements.

Standards and Requirements

Reference Markets

The primary reference markets used by Nalcor for external benchmarking purposes are as follows:

- Non Union Positions in HL1-HL19: Atlantic Canada Electric Utilities
- Executives: General Industry, Canada
- Oil & Gas Industry: HLP 10-18

Nalcor seeks to be competitively positioned at the 50th percentile level in the external market.

Pay Linked to Performance

An important element of Nalcor's compensation philosophy is to incorporate some linkage between pay and performance into its compensation structure. A secondary consideration is the need to remain competitive with industry in relation to variable/incentive pay practices. Nalcor links pay with performance for non-union employees in three ways:

1. by tying progression in base salary to ongoing performance;
2. by providing a re-earnable, lump sum payment to non-employees whose performance is rated as exceeding expectations in a year; and,
3. by providing a re-earnable annual performance incentive to executives and other key senior contributors within the Company who are not covered by 2) above.

Process / Procedure

Salary Structure

The Company maintains a non-union salary structure that is comprised of several levels which generally reflect job differences in terms of knowledge requirements; level of complexity; and the financial, supervisory and other accountabilities of the various positions in the Company. Position levels are determined using a gender neutral, point-based job evaluation methodology.

Unique salary structures may be developed for defined segments of the Company's non-union workforce where the reference market(s) for the employee group(s) involved involve significantly different industries or sectors compared to others used in the Company.

Job Evaluation

All permanent non-union positions are assigned a job evaluation rating which in turn determines their appropriate salary level within the Company's non-union salary structure. Job evaluation ratings are determined by one of two Job Evaluation Committees, described further below.

The Job Evaluation Committee (JEC) completes job evaluation ratings for all non-union positions at HL 15 and below. The JEC is comprised of a cross-section of Nalcor managers who have been trained in Nalcor's job evaluation methodology, and is chaired by the Company's Human Resources Specialist, Compensation and Benefits.

The Senior Job Evaluation Committee reviews job evaluation ratings for non-union positions above the level of HL15, or part of senior management team. The Senior JEC is comprised of the Vice-President, Human Resources and Organizational Effectiveness and three other Vice-Presidents who, together, are representative of the diverse operations and functional areas of Nalcor's operations, and is chaired by the Company's Human Resources Specialist, Compensation and Benefits. The Senior JEC seeks to achieve consensus on job evaluation reviews, but the Vice-President, Human Resources and Organizational Effectiveness is responsible for making the final determination where this is not possible.

The Vice-President may approve the use of an external consultant specialized in job evaluation as an alternative or in support of a Committee review process where it is deemed the most appropriate approach in a specific situation.

Job evaluation reviews are required or may be initiated in any of the following situations:

- A new position classification which does not currently have a job evaluation rating has been created.
- Meaningful change in the nature and scope of a position has occurred, to a point where the incumbent, or the incumbent's Manager, feels that the position should be reviewed. Any request by an incumbent for the re-evaluation of an existing position must be approved by the incumbent's Manager.
- An incumbent or Manager does not agree with a rating completed by the JEC and approved by the Vice-President, Human Resources and Organizational Effectiveness, and wishes to have the original rating reviewed. Any such request for review will be submitted to the Senior JEC.

Annual Salary Administration

The Company reviews non-union salaries on an annual basis for two purposes:

- to determine the extent of any general economic adjustment that may be required; and,
- to confirm the merit adjustments that will be made to individual base salaries based on the annual performance review cycle.

Individual salary adjustments are implemented annually in accordance with a Salary Administration Matrix which indicates the adjustments that correspond with each performance rating category and an employee's position on his/her salary scale. Annual salary changes resulting from economic and/or merit adjustments are normally effective from April 1.

Special Adjustment

From time to time, the Company may implement market reviews in special circumstances to determine appropriate compensation levels for certain employee groups based on a variety of factors (i.e. external market conditions). The special adjustment will ensure the Company's ability to recruit and retain qualified personnel in these key roles. These adjustments shall be reviewed periodically in reference to external benchmarks and any adjustments shall be approved by the Vice-President, Human Resources and Organizational Effectiveness.

Short Term Incentives

Nalcor provides a variable component of compensation to its Executives and a limited number of other senior employees in the Company as a further mechanism for linking pay to organizational performance (employees at HL16 and above, and employees at HL15 who are direct reports to an executive). These annual, re-earnable incentive payments are tied directly to individual Performance Contracts which document specific, measurable objectives related to both corporate performance and divisional/departmental performance.

Executive Deferred Compensation Program

Nalcor provides a long term incentive and variable component of compensation to its senior leaders in the Company as a mechanism for linking pay to organizational long-term, strategic goals. These incentive payments result from individual Deferred Cash Award Agreements which document specific, measurable objectives related to corporate performance or Line of Business performance over a period of three (3) years.

Salary Administration for New Hires

New employees will be offered a salary in the range for their position that is commensurate with their formal qualifications and years of related experience. Managers are required to consult and agree with the Department of Human Resources and Labour Relations on an appropriate hiring rate before any communication occurs with a prospective new employee on matters related to salary. Final discretion and approval for all salary offers resides with Department of Human Resources and Labour Relations. Any offer of employment, including the Company's salary offer, may only be made on the Company's behalf by the Department of Human Resources and Labour Relations.

Salary Administration on Promotion

An employee who accepts a new position that is in a higher pay grade than his/her previous position will be entitled to a promotional adjustment of 5% for each level above his/her current level, to a maximum of 10% or the bottom of their new scale.

Employees promoted from the Operations collective agreement will receive a 15% increase on their base salary. Employees promoted from the Office Workers collective agreement will receive a 7.5% increase on their base salary.

Salary Administration on Temporary Assignment

An employee who is temporarily assigned to a position at a higher salary level will be entitled to a pay adjustment for the duration of the assignment which is determined on the basis of a review of the following factors:

- the extent to which the employee will be expected to perform the full scope of the temporary role;
- the employee's qualifications relative to the requirements of the temporary role; and,
- the employee's current salary level compared to the scale for the higher position.

The appropriate adjustment will be determined by the Department of Human Resources and Labour Relations, in consultation with the appropriate Manager. Partial responsibilities will result in a 2.5% increase for each pay grade to a max of 5%. Full responsibility will result in 5% for each grade to a maximum of 10%.

An employee who assumes a temporary assignment in a lower level position will continue to be paid their regular rate of pay for the duration of the assignment, subject to any arrangement to the contrary which may be agreed upon between the employee; his/her Manager; and the Department of Human Resources and Labour Relations.

Salary Administration on Demotion

Voluntary – An employee who accepts a voluntary demotion into a lower level position will be paid a salary in that new position which is the same as his/her pre-demotion salary, provided that the new salary cannot exceed the Job Rate for the employee's new position.

Involuntary – An employee who is involuntarily demoted into a lower level position for reasons which are beyond their personal control (e.g., functional limitations related to an injury, position redundancy) will continue to receive their existing salary, and will be entitled to any future economic salary adjustments for as long as they occupy that position.

Engineer Advancement Program

Nalcor's Engineer Advancement Program provides a mechanism for enabling salary progression for Engineers as they advance through their careers and increase both the breadth and depth of their skills and competencies in their areas of engineering speciality. Progression from one level to the next in this four level structure is regulated by specific criteria related to experience, skills and demonstrated contribution, and is overseen by an Engineer Review Committee chaired by the Department of Human Resources and Labour Relations. Advancement to the next level occurs in coordination with the annual salary administration process on April 1.

Overtime Compensation

Non-Supervisory employees up to and including Hay Level 11

Subject to the prior approval of the appropriate Supervisor, overtime will be paid for actual time worked outside normal scheduled hours at double the employee's regular hourly wage rate.

Supervisory Employees in Hay Levels 7 to 10 inclusive and First Level Supervisors in Hay Levels 11 and 12

Subject to the prior approval of the Supervisor's immediate supervisor or Manager, overtime will be paid when a supervisor is required to provide continuous and direct on-the-job supervision of employees outside normal working hours. First level supervisors may also be entitled to overtime payment for additional duties assigned by their Manager, where these duties must be performed outside normal scheduled hours.

Employees in Hay Levels 12 to 14 inclusive

Employees above Salary Grade 11 are not entitled to overtime payment, except as may be authorized in the circumstances indicated below.

- **Extra Time on a Sustained Basis:** Overtime may be paid to an employee who is assigned to a project which requires a commitment to overtime which averages in excess of 10 hours per week over a sustained period of time that exceeds four continuous weeks. Such an arrangement requires the advance approval of both the accountable Vice-President and the Vice-President, Human Resources and Organizational Effectiveness.
- **Major Emergencies:** Subject to the approval of the accountable Vice-President and the Vice-President, Human Resources and Organizational Effectiveness, overtime may be paid in the case of a major emergency which requires the direct and continuous involvement of an employee outside his/her regular hours of work for a continuous period of no less than five days.

Any overtime paid to employees in this group will be at the rate of time and one-half the employee's regular rate.

Employees are entitled to bank overtime hours worked instead of receiving overtime pay, up to a maximum of 60 hours straight time in lieu of pay at any time. Employees can request time off through this bank subject to the approval of their supervisor(s) and the exigencies of Company operations. A maximum balance of 40 hours may be carried from one calendar year to the next.

On-Call Compensation

- Supervisory employees in salary grades 7 to 10 inclusive, and First Level Supervisors in grades 11 and 12, who perform regular on-call duties will be paid five (5) hours at double their regular hourly wage rate for each week (seven consecutive days) of on-call duty performed.
- Any employee in salary grade 11 or below who is not covered by a) above who is required to take irregular on-call duty of less than one week will be paid one hour at his/her straight time hourly rate of pay for each eight (8) hours of on-call duty.
- In lieu of on-call or overtime payments, the appropriate Vice-President may authorize the payment of an allowance equal to 6% of the employee's job rate to a supervisory or professional employee in Salary Grades 11 to 15 inclusive, whose work patterns include on-call duty and overtime work on a consistent basis throughout the year.

Responsibilities

Compensation Committee of the Board of Directors

The Compensation Committee is responsible for overseeing, and presenting recommendations to the Board, in relation to the following:

1. Its annual review of management's analysis of market trends and other indicators and proposed economic adjustments to the Company's salary scales as required;
2. Any proposed changes to the Company's Performance Contract process or short-term incentive (STI) eligibility criteria, as well as the proposed annual STI payments to Vice-Presidents and other eligible recipients;
3. Upon delegation of the Board, any proposed changes to the Company's Executive Deferred Compensation Program process, plan, or long-term incentive (LTI) eligibility criteria, as well as the proposed annual grants to Executives;
4. Its annual review of the CEO's performance and proposed annual adjustments to the CEO's base salary and annual STI payments; and,
5. Any substantive changes or additions to the Company's salary or incentive compensation programs for non-union employees.

See Process/Procedure Section for the responsibilities of the Department of Human Resources and Labour Relations and other parties.

Supporting and Related Documents

Job Evaluation Guidelines

[Current Salary Administration Matrix](#)

Engineer Advancement Criteria

Oil & Gas Compensation Policy

Attachments
