

IN THE MATTER OF the *Public Utilities Act*, RSNL
1990, Chapter P-47, as amended (“*Act*”); and

IN THE MATTER OF an application by
Newfoundland Power Inc. (“Newfoundland Power”)
to establish customer electricity rates for 2025 and
2026 (“Application”).

Newfoundland and Labrador Hydro

Requests for Information

NLH-NP-135 to NLH-NP-142

May 8, 2024

1 **KORN FERRY – EXECUTIVE COMPENSATION REVIEW (“KORN FERRY REPORT”)**

2 **NLH-NP-135 Reference: Korn Ferry Report, Section 2 and app. C.**

3 Regarding the 390 Commercial Industrial organizations of the total database selected for
4 Newfoundland Power’s review:

5 **a)** On what basis were the 390 participants in the comparator market selected out of
6 the total 543 referenced?

7 **b)** Please indicate how many of the participants in this reference group are Utility
8 companies. Of the Utilities identified, how many are electric utilities?

9 **c)** Is there a comparator group in Korn Ferry’s overall dataset of comparator groups
10 that has a large representation of utilities? If so, what comparator group would that
11 be?

12 **d)** Further to part b), what was the rationale for not using a comparator group with a
13 broader utility representation? Would it be more appropriate for Korn Ferry to
14 utilize a comparator group that contains more representation from the Utility
15 industry? Why or why not?

16 **e)** When did Korn Ferry begin to use the Canadian Commercial Industrial group as a
17 comparator for Newfoundland Power executive compensation?

18 **f)** Please provide the scope of work and other relevant documentation that formed
19 the basis of Korn Ferry’s preparation of its submission on executive compensation.

20 **g)** Using the table below, please provide a comparison of the organizations included
21 within the Canadian Commercial Industrial comparator group, including
22 Newfoundland Power, on the basis of revenue, asset base, number of employees,
23 and geography (market served).

Company	Location	Industry	Market Served (Area/Geography)	Revenue (\$M)	Scope Information	
					Assets (\$M)	Employees (#)

- 1 **h)** Does Korn Ferry provide a similar analysis for Newfoundland Power for
 2 Newfoundland Power’s non-union/non-executive personnel? If yes, please detail
 3 the comparator market(s) used for non-union/non-executive personnel and explain
 4 the associated rationale for the use of the comparator market(s) identified.

5 **NLH-NP-136 Reference: Korn Ferry Report, sec. 1, p. 3 and sec. 2, p. 4.**

6 Section 1, Page 3 state:

7 Assessing compensation values against the median level (i.e., 50th
 8 percentile or P50) of the defined comparator group, which is consistent
 9 with NFP’s historical executive compensation principles.

10 Section 3, Page 4 state:

11 As a policy, NFP sets its salary range in +/-15% of the market median.
 12 The private sector market tends to either set the salary range +/-20% of
 13 the market median or do not set any salary range at the executive level.

- 14 **a)** How does Newfoundland Power’s compensation policy for executives (salary range
 15 relative to market median) compare to compensation policies of other Canadian
 16 Utilities?
 17 **b)** Does Newfoundland Power apply any regional market differential to its executive
 18 pay scales? If so, what is the percentage and how is it applied?
 19 **c)** Please provide the job rates for the executive positions at Newfoundland Power,
 20 including the full salary range minimum and maximum as well as percentage
 21 minimum and maximum of scale and the rationale for when target payout may be
 22 deemed appropriate to be above target and deemed at maximum.
 23 **d)** What are Newfoundland Power’s “historical executive compensation principles”
 24 that Korn Ferry refers to?

25 **NLH-NP-137 Reference: Korn Ferry Report, sec. 4, p. 7.**

26 It is stated that Korn Ferry believes that it is reasonable for Newfoundland Power to
 27 compare itself to the Commercial Industrial comparator group “...because jobs are
 28 compared on a “point adjusted” basis which means they are compared to those of similar
 29 overall skill, effort and responsibility, and not necessarily on the basis of “same title”[...].”

- 30 **a)** Please explain what is meant in the report by “point adjusted” basis.

- 1 **b)** Please provide commentary on how the points system would be adjusted, if at all, if
2 a different comparator group was used.
- 3 **c)** If a comparator group with a lower or higher median salary was used, how would
4 the points system apply? And would the points be adjusted? Please explain the
5 impact.

6 **NLH-NP-138 Reference: Korn Ferry Report, sec. 4, p. 7.**

7 Korn Ferry states that “...NFP competes for its executive resources with organizations
8 across the breadth and depth of business sectors across Canada.”

- 9 **a)** What is the basis for Korn Ferry’s statement?
- 10 **b)** Please explain if Korn Ferry considers industry as a relevant factor in an
11 organization’s development of a compensation approach. Has Korn Ferry conducted
12 industry-specific compensation and/or total remuneration reviews, and if so, does
13 Korn Ferry publish such industry-specific information?
- 14 **c)** Further to part (b), why does Korn Ferry undertake industry specific research?

15 **NLH-NP-139 Reference: PUB-NP-031 and Korn Ferry Report**

- 16 **a)** Please confirm the accuracy and completeness of the table provided.

Position	2021 Actual Base Salary (PUB-NP-031 Attachment C, Table 1)	2024 Actual Base Salary (Appendix C, Table 2)	% Change Base Salary
CEO	\$397,000	\$495,000	25%
VP Finance & CFO	\$288,500	\$345,000	20%
VP, Engineering & Energy Supply	\$293,000	\$345,000	18%
VP Customer Operations	\$285,000	\$286,000	0%

- 17 **b)** Please breakdown the percentage increase in executive salary scales (CEO and VP)
18 by year as recommended by Korn Ferry since 2021.
- 19 **c)** How does the increase provided to Newfoundland Power executive scales (CEO and
20 VP) over 2021 through 2024 compare to executive scale increases for other
21 Canadian Utilities over the same period?

1 **NLH-NP-140 Reference: Korn Ferry Report, Table 2, p. 9.**

- 2 a) Please expand Table 2 to include the same data from 2020–2024, by year.
- 3 b) Please provide the details for Newfoundland Power’s Long-Term Incentive
4 Programs, including target, minimum and maximum eligible payouts used by Korn
5 Ferry to evaluate Newfoundland Power’s total remuneration and total direct
6 compensation packages.
- 7 c) In Korn Ferry’s opinion, how does the purpose of the Long-Term Incentive Program
8 differ from the Short-Term Incentive Program?
- 9 d) Korn Ferry notes on page 4 that “As such, NFP average Target Total Direct is 4%
10 below market median (P50).” In Korn Ferry’s view, what is the correlation between
11 Newfoundland Power’s positioning of Target Total Direct compensation, and the
12 Total Cash compensation offered by Newfoundland Power?

13 **NLH-NP-141 Reference: Korn Ferry Report, sec 2.**

14 Korn Ferry states “NFP target short-term incentive (STI) levels, expressed as a % of salary,
15 are lower than the market median.

16 – 50% of salary for President & CEO; and

17 – 35% of salary for VPs.”

- 18 a) Please complete and confirm the accuracy of the table provided.

Position	2019		2020		2021		2022		2023		Position Target STI (%)
	Actual STI (\$)	(%)	Actual STI (\$)	(%)	Actual STI (\$)	(%)	Actual STI (\$)	(%)	Actual STI (\$)	(%)	
CEO							221,000	51.2	269,000	57.4	50
VP Finance & CFO							112,000	36.5	141,000	44.5	35
VP, Engineering & Energy Supply							115,000	36.3	141,000	43.0	35
VP, Customer Operations							128,000	41.2	137,000	45.8	35

- 19 b) In Korn Ferry’s evaluation, what is the average payout percentage and average
20 payout versus target for companies within the Canadian Commercial Industrial
21 Group? How does Newfoundland Power’s data compare to the other Utilities within
22 the Canadian Commercial Industrial comparator group? How does Newfoundland
23 Power’s data compare to the Utility Industry?

1 c) In Korn Ferry's experience, how does Newfoundland Power's Short-Term Incentive
2 payout history compare to other Canadian Utilities?

3 **LAURENCE D. BOOTH – FAIR RETURN AND CAPITAL STRUCTURE FOR NEWFOUNDLAND**
4 **POWER (NP) ("EVIDENCE OF LAURENCE D. BOOTH")**

5 **NLH-NP-142 Reference: "2025/2026 General Rate Application," Newfoundland Power Inc., December**
6 **12, 2023, vol. 2, Expert Evidence, "Cost of Capital," Concentric Energy Advisors Inc.,**
7 **November 7, 2023, ch. V(B)(2), p. 44, fig. 27 and Evidence of Laurence D. Booth,**
8 **p. 37 and p. 54.**

9 The Evidence of Laurence D. Booth states on page 54:

10 In words, the required (fair) return is the risk-free rate (R_f) plus the risk
11 premium comprised of the market risk premium (MRP) times the beta
12 coefficient (P),

13 The risk-free rate is normally directly observable since the practice in
14 Canada is to use the long Canada bond yield as the risk-free rate, while
15 the market risk premium is reasonably objective [...]. Consequently, the
16 major area of dispute is the relative risk or beta coefficient, and even
17 here there is not much doubt that utilities are lower risk than the
18 market.

19 Does Mr. Coyne believe the fact that Canadian Group Value Line betas are lower than the
20 US Electric Group is an indication that Canadian utilities are perceived to be lower risk
21 than US electric utilities? Why or why not? Please explain.

DATED at St. John's, in the province of Newfoundland and Labrador this 8th day of May, 2024.



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