

**Newfoundland Power
Analysis of Executive Compensation
April 2001
Prepared by: David Crane
Hay Management Consultants**

NEWFOUNDLAND POWER

Analysis of Executive Compensation

April 2001

Prepared by:

David Crane

Hay Management Consultants

Table of Contents

Section	Page
I. Purpose & Approach.....	1
II. Detailed Findings	3
III. Summary of Recommendations.....	8
Appendices	
A List of Canadian Industrial Companies	

Section I

Purpose & Approach

Purpose

HayGroup was asked to:

- Review the job evaluation ranking of executives of Newfoundland Power relative to one another and to the evaluation practice in other companies due to recent re-alignment of roles.
- Determine the competitive position of the elements of executive compensation (salary, bonus, long term incentives, pension, benefits etc.) and recommend changes, if required.
- Comment upon the existing executive compensation policy, as appropriate.

Ranking of Executive Positions

- HayGroup has evaluated the executive positions and validated our understanding of the roles through discussions with the President and Chief Executive Officer. The ranking shown in Table 1 is used throughout this report.
- The organizational changes that precipitated reconsideration of the ranking include:
 - A reduction in the number of Vice President positions from four to three;
 - Combination of the roles of VP, Engineering and VP, Operations into a single position;
 - Consolidation of the accountabilities for the VP, Customer & Corporate Services, previously VP, Customer Service; and
 - Re-alignment of regulatory roles and responsibilities within the Executive team.
 - Recognition of the CFO's corporate development accountability and the materially increased complexity of regulatory affairs.
- The evaluations, in our opinion, reflect the magnitude and scope of the various executive accountabilities involved in the management of Newfoundland Power relative to both:
 - one position to another ; and to
 - each position to benchmark positions in other Canadian Industrial organizations

Table 1 – Evaluation Ranking

Position	Previous Ranking	Proposed Ranking
President & CEO	2827	2827
VP Engineering & Operations	1723	1815
VP Customer & Corporate Services.	1501	1723
VP Finance & CFO	1643	1723
Corporate Counsel & Secretary	1465	1465

Compensation Comparisons

- 260 Canadian Industrial Companies were used to provide comparable compensation data to Hay Management Consultants, as listed in Appendix A.
- Compensation comparisons are based upon evaluated job size. Market data are effective at May 2000 and have been adjusted upwards by 3% to reflect projected 2001 salary policy increases.
- Each element of executive compensation at Newfoundland Power has been compared to prevailing practice for positions of similar size within the group of 260 companies.
- This report compares compensation policy at Newfoundland Power to the policies of other companies in the comparator group.

The data are therefore unaffected by differences in either corporate or individual performance.

Section II

Detailed Findings

Salary Policy

- Salary policy at Newfoundland Power is generally consistent with median industrial practice.
- A “banding” approach to salary administration is now used in which Vice President roles are paid in the same salary range, regardless of how the individual jobs are evaluated and ranked. As a result of the recent reorganization and subsequent changes in roles and accountability, the relative size of the positions reporting to the Chief Executive Officer now differ from one another.

Table 2 – Salary Policy and Actual Salaries

Position	Present 2001 Salary Band Policy	Proposed 2001 Policy Using New Evaluation (= Median Industrial)	Current 2001 Salary	Current Salary as % of Proposed 2001 Policy
President & CEO	\$273,000	\$273,000	\$285,000	104.4%
VP Engineering & Operations	\$172,000	\$182,000	\$183,000	100.5%
VP Customer & Corporate Services	\$172,000	\$174,000	\$175,000	100.6%
VP Finance & CFO	\$172,000	\$174,000	\$175,000	100.6%
Corporate Counsel & Secretary	N/A	\$154,000	\$140,000	90.9%

Recommendations

- Adjust salary policy for all positions to reflect evaluation changes.
- Base future salary policy directly upon individual job evaluation ranking.

- Annual Incentive Policy**
- Total Cash policy (Base Salary Policy plus Short Term Incentive Design) at Newfoundland Power is generally between 90% and 95% of median Industrial practice.

Table 3 compares the STI Design for each executive, expressed as a percentage of salary, to median Industrial practice.

- The maximum payout opportunity of the STI at Newfoundland Power, for achievement of truly exceptional results well above Target, is presently 150% of the STI Design. A maximum payout opportunity of 200% is typical market practice.

Table 3 – Current STI Design Compared to 2001 Median Industrial Practice

Position	STI Design as a % of Salary		Current STI Design Market Position
	Current STI Design	Median Industrial Practice	
President & CEO	30%	33%	P10
VP Engineering & Operations	20%	28%	P16
VP Customer & Corporate Services	20%	27%	P15
VP Finance & CFO	20%	27%	P15
Corporate Counsel & Secretary	20%	24%	P25

Recommendations

- Increase the STI Design available to all executives by 5% of salary.
- Change the Maximum payout that can be earned for achievement of truly exceptional results from 150% to 200% of the STI Design.

Long Term Incentive Arrangements

- Stock Option grants presently have a term of five years and vest in full on the day granted; the plan accordingly has only limited retentive power. Options that vest immediately and/or have a five-year term are unusual in the market place.
- Annual Long Term Incentive grants at Newfoundland Power are not competitive with Industrial practice. Using the Black Scholes methodology, a widely used determinant of the compensation value generated by a grant of stock options, the present value of stock option grants received by the CEO is approximately 63% below median Industrial practice and is 50% to 55% below median practice for the rest of the executive team.
- Competitive market data suggest that stock options are increasingly offered to lower level positions than at the Vice-President level at Newfoundland Power. It is accordingly recommended that positions evaluated between 1000 and 1400 points also receive options.

Recommendations

- It is recommended that future option grants reflect the prevailing pattern in the market place by being issued with:
 - A term of ten years; and
 - Vesting over four years at 25% per annum.
- Stock option grants should be increased substantially. Table 4, following, compares the Black Scholes value of current options grants, expressed as a % of salary, to median Industrial practice.

Table 4 – Comparison to Current Market Practice and Proposed Future Stock Option Awards

Position	Present Salary Multiple	Black Scholes Present Value as a % of Salary		Proposed Salary Multiple at Newfoundland Power
		Newfoundland Power	Market	
President & CEO	125%	17%	35% to 48%	250%
Vice Presidents	100%	13%	25% to 30%	150%
Senior Managers	0%	0%	10% to 20%	50%

Noncash Compensation

(Pensions, Employee Benefits & Perquisites)

Hay calculates the notional cost of employee benefits, pensions and perquisites by using a wide variety of standardized formulae for each element of the package.

The use of standardized costing methods permits comparison to other companies without distortion caused by demography or claims experience. The notional costs are then reduced by any employee contribution to the plans. The end result represents the "compensation value" to the employee (i.e. the company-paid share) of pension, benefits and perquisites that is paid for by the company.

- Table 5 illustrates that the aggregate compensation value of the noncash package at Newfoundland Power is typically between 10% and 32% below median Industrial practice.
- Subject to modest proposed changes, employee benefit plans and perquisites are generally consistent with Industrial practice.
- Executives at Newfoundland Power contribute 6.5% of salary to a defined contribution pension plan up to the Income Tax Act limit (approx. \$100,000 salary) that is matched by the company. In addition, the company expenses 13% of salary exceeding the ITA limit and accrues this amount, plus notional interest, until the retirement of each executive. The compensation value of this arrangement is below comparable pension values provided by other Industrial companies.

**Table 5 – Comparison of the Compensation Value of Pensions & Benefits
to Median Industrial Practice**

Position	Compensation Value of the NonCash Package	Median Industrial NonCash	Nfld. Power as % Median	Market Position
President & CEO	\$60,600	\$73,700	82%	P35
VP Engineering & Operations	\$38,900	\$57,500	68%	P22
VP Customer & Corporate Services	\$38,900	\$53,800	72%	P26
VP Finance & CFO	\$38,900	\$53,800	72%	P26
Corporate Counsel & Secretary	\$38,900	\$43,300	90%	P40

Noncash Compensation Recommendations

- Various relatively small adjustments to employee benefits coverage:
 - Health Plan - Increase maximum on vision care from \$150 to \$200;
 - Dental Plan – Add major restorative coverage (crowns, inlays, bridges) and orthodontic care and increase maximum annual coverage from \$750 to \$2,000;
 - Remove employee contributions towards Health and Dental insurance premiums.
- It is recommended that Short Term Incentive payouts be included within the definition of pensionable earnings under the defined contribution arrangement.

Total Remuneration Policy

This is the sum of Salary Policy, STI Design , Stock Option grants and Noncash compensation.

Table 6, following, the value of all of the existing elements of the executive compensation package together (*before* the recommended changes) and compares the result to the median of aggregate total remuneration received by comparable positions in the Industrial sector.

Table 6 – Comparison of Existing Total Remuneration Practice to Median Industrial Practice

Position	Nfld. Power	Median Industrial	Nfld. Power as % Median	Market Position
President & CEO	\$448,300	\$523,300	86%	P36
VP Engineering & Operations	\$282,300	\$314,300	90%	P35
VP Customer & Corporate Services	\$269,900	\$297,900	91%	P36
VP Finance & CFO	\$269,900	\$297,900	91%	P36
Corporate Counsel & Secretary	\$242,100	\$251,900	96%	P44

Section III

Summary of Recommendations

If the following recommendations are adopted, the aggregate value of the executive compensation package will typically be 1% above the market median at approximately the 52nd percentile of Industrial Practice.

- Adjust salary policy for all positions to reflect evaluation changes.
- Base future salary policy directly upon individual job evaluation ranking.
- Increase the STI Design available to all executives by 5% of salary.
- Increase the maximum STI payout that can be earned for achievement of truly exceptional results from 150% to 200% of the STI Design.
- Change the term of stock option grants from five to ten years and introduce vesting at 25% per annum over the first four years.
- Increase the annual stock option grant from 125% to 250% of salary for the CEO, and from 100% to 150% for Vice Presidents.
- Provide an annual grant of stock options equal to 50% of salary to employees below the level of Vice President whose position is ranked between 1000 and 1400 evaluation points.
- Make several small adjustments to employee benefits coverage:
 - Health Plan - Increase maximum on vision care from \$150 to \$200;
 - Dental Plan – Add major restorative coverage (crowns, inlays, bridges) and orthodontic care and increase maximum annual coverage from \$750 to \$2,000;
 - Remove employee contributions towards Health and Dental insurance premiums.
- Include Short Term Incentive payouts within the definition of pensionable earnings.

Appendix A

List of Canadian Industrial Companies

ATCO Singlepoint Ltd.
ATOFINA Canada Inc.
Abitibi Consolidated Inc.
Agricore
Ainsworth Lumber Co. Ltd.
Air Products Canada Ltd.
Alcan Aluminium Limited
Alcatel Canada Inc. - Transport Automation
Alcatel Canada Wire, a division of Alcatel Canada Inc.
Algoma Steel Inc.
Algonquin Automotive/Hidden Hitch
Andrés Wines Ltd.
Association of Regina Realtors Inc.
Atlantic Lottery Corporation
Atlantic Packaging Products Ltd.
Atlas Stainless Steels, Division of Sammi Atlas Inc.
Australan High Commission
Aventis Pasteur
BBA Nonwovens Canada Limited
BC Gas Utility Inc.
BOC Canada Limited
Barry Callebaut Canada Inc.
The Bay
Bayer Inc.
Bell Helicopter Textron Canada
Bon L Canada
British Columbia Buildings Corporation
British Tourist Authority

Brookfield Management Services Ltd.
Burlington Hydro-Electric Commission
Business Depot
CCL Label
CGC Inc.
CHEP Canada
CKF Inc.
CSG Security Inc.
CYRO Canada Inc.
Cadbury Chocolate Canada Inc.
Calgary Exhibition and Stampede
Cambior Inc.
Campbell Soup Company Ltd.
Canada Brick Co.
Canadelle Inc.
Canadian Forest Products Ltd.
Canadian Institute of Chartered Accountants
Canadian National Railway Company
Canadian Niagara Power Inc.
Canadian Occidental Petroleum Ltd. - CXY Chemicals
Canadian Pacific Limited
Canadian Pacific Railway
The Canadian Salt Company Limited
Canadian Timken Ltd.
Canpotex Limited
Cargill Limited
Case Corporation
Cave Spring Cellars - The Pennachetti Group
Celgar Pulp Company

Champion Canada
Christie Digital Systems Inc.
Cobi Foods Inc.
Coca-Cola Ltd.
Cognis Canada Corporation
Cominco Ltd.
Cooper Industries (Canada) Inc.-Cooper Hand Tools Division
Cooper Industries (Canada) Inc.-Cooper Power Systems Div.
Crouse-Hinds Division of Cooper Industries (Canada) Inc.
Dairyworld Foods
Dofasco Inc.
Dominion Castings, Ltd.
Dow Chemical Canada Inc.
Dow Corning Canada Inc.
DuPont Canada Inc.
Dynacast Canada Inc.
Ecolab Ltd.
Elkem Métal Canada Inc.
Enbridge Consumers Gas
Enbridge Inc.
Enbridge International Inc.
Enbridge Pipelines Inc.
Enbridge Services Inc.
Enbridge Technology Inc.
Energizer Canada Inc.
Extendicare Inc.
FM Global
Falconbridge Limited

HayGroup

Newfoundland Power
Analysis of Executive Compensation

Fanuc America Corporation
 Finning (Canada)
 Finpro
 Fisher Gauge Limited
 Fishery Products International
 G.T.C. Transcontinental Group Ltd.
 GSW Inc.
 Gap (Canada) Inc.
 Gates Canada Inc.
 Gay Lea Foods Cooperative Limited
 General Mills Canada, Inc.
 Gerdau-Courtice Steel Inc.
 Givaudan Roure Inc.
 Goodyear Canada Incorporated
 Grand & Toy
 Grant Forest Products Corp.
 H.J. Heinz
 Halifax-Dartmouth Bridge Commission
 Hallmark Canada
 Hanes Canada
 Hercules Canada Inc.
 High Liner Foods Inc.
 Highland Valley Copper
 Hilti (Canada) Limited
 The Hostess Frito-Lay Company
 Hudson's Bay Company
 Hudson's Bay Company - Information Services
 Hydro Mississauga
 Hydro One Inc.
 IMC Potash Canada
 IPSCO Inc.
 ISP (Canada) Inc.
 ISPAT-Sidbec Inc.
 Inco Limited
 Indal Technologies Inc.

HayGroup

*Newfoundland Power
 Analysis of Executive Compensation*

Indalex Aluminum Solutions - Mississauga
 Industrial Accident Prevention Association
 (Ontario)
 Ingersoll-Rand Canada Inc.
 J. H. Ryder Machinery Limited
 JTI-MacDonald Corp.
 Kellogg Canada Inc.
 Kennametal Ltd.
 Kia Canada Inc.
 Kimberly-Clark Forest Products Inc.
 Kimberly-Clark Inc.
 Kimberly-Clark Nova Scotia Inc.
 Kraft Canada Inc.
 LCBO
 LTV Copperweld Automotive Group Cdn.
 Operations
 LTV Copperweld Tubular Products Brampton
 Labatt Breweries of Canada
 Lantic Sugar Limited
 Levi Strauss & Co. (Canada) Inc.
 Lifestyle Retirement Communities
 London Machinery Inc.
 Manitoba Telecom Services Inc.
 Maple Leaf Sports & Entertainment Ltd.
 Maritime Electric Company
 Maritime Telegraph and Telephone Co.
 Maytag Canada
 The McElhanney Group
 Merck Frosst Canada & Co.
 The MIBRO Group
 Minas Basin Pulp & Power Co. Ltd.
 The Minute Maid Company Canada Inc.
 Mitsubishi Canada Limited
 Moly-Cop Canada
 Moore-Clark, A Division of Nutreco

Mount Pleasant Group
 NOVA Chemicals Corporation
 Nestlé Canada Inc.
 New Brunswick Liquor Corporation
 New Brunswick Power Corporation
 Newfoundland and Labrador Hydro
 Newfoundland Power Inc.
 NewTel Communications
 Noranda Inc.
 Norbord Industries Inc.
 Norsk Hydro Canada Inc.
 Northrop Grumman - Canada, Ltd.
 Norton Canada Inc.
 Nova Scotia Power Inc.
 OSRAM Sylvania Limited
 Ontario Federation of Agriculture
 Ontario Pork
 Ontario Power Generation Inc.
 Ordre des ingénieurs du Québec
 Orica Canada Inc.
 Osler, Hoskin & Harcourt
 Otis Canada Inc.
 Overwaitea Food Group
 PPG Canada Inc.
 Peacock Inc.
 The Pepsi Bottling Group
 Pfizer Canada Inc.
 Pharmacia & Upjohn Inc.
 Pine Falls Paper Company
 Pioneer Hi-Bred Limited
 Pioneer PCI Chemicals Canada Inc.
 Pitney Bowes of Canada Limited
 Potash Corporation of Saskatchewan Inc.
 Praxair Canada Inc. - Industrial Gas Division
 Praxair Canada Inc. - Packaged Gas Division

Precision Valve (Canada) Limited
Procor Limited
Les produits forestiers Daishowa Ltée
QIT- Fer et titane Inc.
The Quaker Oats Company of Canada Limited
Qualex Canada
Redpath Sugars
Regina Airport Authority
Repap New Brunswick Inc.
Rhodia Canada Inc.
The Rider-BTI Travel Group
Rio Algom Limited
Riverside Forest Products
Rogers Sugar Ltd.
Rolls-Royce Canada Ltd.
Rothmans Benson & Hedges Inc.
Royal Canadian Mint
Russel Metals Inc.
SITA
SNC-Lavalin Group Inc.
Sandvik Steel Canada
Sarnia Hydro
Saskatchewan Telecommunications
Saskatchewan Wheat Pool
SaskPower

Scotsburn Co-operative Services Limited
Scott Paper Limited
Sears Canada Inc.
Siemens Canada Ltd.
Snap-On Tools of Canada Ltd.
Sobeys Capital Inc.
Société en Commandite Tafisa Canada Inc.
Spruce Falls Inc.
Standard Products Ltd.
Stelco Inc.
Stepan Canada Inc.
Sterling Pulp Chemicals Ltd.
Stuart Energy Systems
Sudbury Hydro
Syncrude Canada Ltd.
TNT Logistics North America
TRW Inc.
TV Ontario
Taro Pharmaceuticals Inc.
Teklynx International
Teknion Furniture Systems
Tembec Inc.
Tetra Pak
Thomson Consumer Electronics Canada Inc.
Timberjack Inc.

Timminco Limited
Tolko Industries Ltd.
Trebtor Allan Inc.
UCAR Inc.
Ultramar Ltd.
Union Carbide Canada Inc.
Union Gas Limited
Uniroyal Chemical Co.
VA TECH Ferranti-Packard Transformers Limited
Vincor International Inc.
Visa Canada Association
Visible Genetics
Voyageur Panel
WHB Identification Solutions Inc.
Wal-Mart Canada Inc.
Weldwood of Canada Limited
West Fraser Timber Co. Ltd.
Westroc Inc
Weyerhaeuser Canada Ltd.
Wilkinson Steel and Metals
Wrigley Canada
XCAN Grain Pool Ltd.
Zellers