Q. **Reference: Volume I, Section 2.2.4 and Volume 2, Exhibit 6, Issue Topic: Operating Efficiencies**

Please provide the impact that the absence of Hydro's short-term incentives and lump sum merit payments for all non-union and executive employees has had on the results of the compensation review, including Hydro plans for increasing salaries.

A. In May 2021, the Government of Newfoundland and Labrador ("Government") issued Order in Council OC2021-128,[1] directing Newfoundland and Labrador Hydro ("Hydro") to eliminate all performance-based pay policies and incentive programs. As a result, short-term incentive and lump-sum merit payments for all non-union and executive employees were discontinued, which had an immediate impact on non-union total compensation.

As part of Southlea Group LP's ("Southlea") independent compensation review, it was determined that Hydro's comparator market is the Canadian utility sector (adjusted to reflect the Atlantic Canadian market) and that Hydro's total remuneration was positioned materially below the market 50th percentile. Based on 2023 data, Hydro was 12% below the market 50th percentile on a total remuneration basis for non-union, non-executive, and ~50% below the market 50th percentile on a total remuneration basis for executives (CEO and VPs).[2] Southlea noted that if the structure is not adjusted, then Hydro will fall further behind market competitive pay levels given expected increases in market compensation levels, and that Hydro competes for talent on a total compensation basis (not on only base salaries).

Based on Southlea's findings and in consultation with Government, Hydro has made adjustments to its base salary scales (i.e., implementation of general economic increases applied in 2024 and 2025) to begin the process of addressing Hydro's position relative to market. Further work is required to address Hydro's positioning relative to the market. Hydro continues to discuss with Government its market positioning and the associated organizational risks. Any

[1] Government of Newfoundland and Labrador, *Order in Council OC2021-128*, May 14, 2021.
[2] "2026 General Rate Application," Newfoundland and Labrador Hydro, May 27, 2026, vol. II, exh. 6, p. 4.

future compensation changes would be subject to the applicable governance and approval processes. Hydro aims to be appropriately prudent in administering compensation, recognizing the need to balance its role as a Crown utility with the risks associated with the attraction and retention of talent.