JEA

Annual Incentive Plan Review

Discussion Draft

March 19, 2019

EXHIBIT
PENGAD 800-631-6989
2
1/22/20

Willis Towers Watson

Annual Incentive Plan Review

This document summarizes Willis Towers Watson's review of JEA's annual incentive plan (Pay for Performance Program). Our review covers key plan design features: eligibility, target award opportunities, payout ranges, bonus pool funding, performance measures and performance range.

At JEA's request, we have provided a high-level review of the 2019 proposed short-term incentive plan, providing commentary on key design aspects based on our understanding of utility industry, as well as general industry, short-term incentive plan design practices. To conduct this review we have researched results from Willis Towers Watson's Global Executive Incentive Design Survey, Willis Towers Watson's Middle Management and Professional Survey (both utility and general industry) as well as our consulting experience.

Eligibility

Eligibility is typically quite broad for both the utility as well as general industry practices. More than 60% of organizations extend incentive plan eligibility to individuals at lower exempt levels and in non-exempt roles (with prevalence actually higher for utilities than general industry). In our experience, however, it is uncommon to include bargaining unit employees in an incentive plan.

Although they may be eligible, employees in these types of roles (lower exempt levels and non-exempt roles) may not have an expressed target bonus opportunity, but rather, be part of a broad-based "sharing program" based on organizational performance. In some cases, overall funding and allocation to participants in these roles may be done on a discretionary basis.

JEA's intent to include all employees in the short-term incentive plan is aligned with current market practices, with the exception of the bargaining unit, which is typically not included in an incentive plan.

The chart on the following page summarizes market practices for short-term incentive plan eligibility.

Incentive Plan Eligibility—By Job Level

Level		Utility Industry Minimum	Utility Industry Median	Utility Industry Maximum	General Industry Minimum	General Industry Median	General Industry Maximum
M5	Senior Group Manager	NA	**NA**	NA	46%	**96%**	100%
M4	Group Manager	50%	**98%**	100%	33%	**88%**	100%
M3	Senior Manager	54%	**96%**	100%	14%	**84%**	100%
M2	Manager	60%	**95%**	100%	15%	**80%**	100%
M1	Supervisor	50%	**93%**	100%	0%	**64%**	100%
P6	Renowned Expert	NA	**NA**	NA	40%	**66%**	100%
P5	Master	63%	**95%**	100%	21%	**76%**	100%
P4	Specialist	58%	**92%**	100%	31%	**76%**	100%
P3	Career	49%	**93%**	100%	8%	**65%**	100%
P2	Intermediate	31%	**87%**	100%	10%	**58%**	94%
P1	Entry	40%	**85%**	100%	7%	**52%**	96%
U4	Lead/Advanced	38%	**76%**	100%	7%	**41%**	80%
U3	Senior	59%	**85%**	100%	8%	**44%**	100%
U2	Intermediate	40%	**78%**	100%	0%	**37%**	79%
U1	Entry	46%	**75%**	94%	5%	**26%**	92%

Source: Willis Towers Watson 2018 General Industry and Energy Services MMPS Compensation Survey Reports - U.S.

Target Incentive Award Opportunities

Our understanding is that JEA's target opportunities range from 3.5% for bargaining unit employees, up to 35% for the senior leadership team (excluding the Chief positions which are covered in a separate report from Willis Towers Watson).

The table below summarizes JEA target incentive opportunities by role/career level, based on how JEA roles are matched to survey data (i.e., JEA pay grades have been aligned with their survey matches). JEA targets are then compared to market target opportunities for both utilities and general industry.

	Target STI Opportunities		
Role/Career Level	**JEA**	**Utilities**	**General Industry**
Non-exempt	3.5-9%	5%	3-5%
Entry-Mid Level Professionals	7-9%	7-10%	5-8%
Senior Level Professionals	9-11%	13-20%	11-18%
Supervisors	9-11%	10%	9%
Managers	11-15%	15%	13%
Senior Directors	15-18%	25%	24%

Payout Ranges

Payout ranges typically are 50% of target (at threshold performance) and 200% of target (for maximum performance), although our experience is that public power utilities have a maximum payout of 150% of target. JEA's current payout range (75% to 125%) is narrower than what we typically see in the market (even for public power), with a higher threshold and lower maximum payout. While it is important to look at the payout range in concert with the performance range (the range of performance over which incentives are earned), the current JEA payout range may not create sufficient motivation to maximize performance (either because the threshold award is too high to achieve and/or because there is no additional leverage to encourage greater levels of performance).

Bonus Pool Funding

There are two primary approaches to determine bonus pool funding: sum-of-targets and financial results-based formula. The sum-of-targets approach identifies specific target opportunities for each participant (typically by role or grade), and the sum of these targets determine the bonus "pool" which would be generated at target performance. In this approach, organizations often accrue for bonus payouts based on how well performance is tracking against performance expectations, with actual funding moving up or down based on actual performance.

For the financial results-based formula approach to bonus pool funding, an organization determines a bonus pool typically using a financially-driven formula (e.g., bonus pool equals 10% of profits above a specified threshold). Allocation of the bonus pool may be on a pro-rata basis, or may vary based on individual or team performance.

A sum-of-targets approach is the more common approach both in general and utility industries. However, for broad-based plans that are separate from executive plans, prevalence increases a bit for financial results-based formulas. JEA appears to have a sum-of-targets approach to bonus pool funding.

There are other design elements that can impact bonus pool funding. A circuit breaker requires defined performance along one measure (typically financial measure) before any incentive award is determined (i.e., if the circuit breaker funding is not achieved, there is no bonus payout, regardless of performance in any other performance measure). Circuit breakers are common in the utility industry, with approximately 60% reporting their usage. In our experience, circuit breakers are particularly important if there is not an overall financial funding requirement. It appears that JEA has a circuit breaker in the recommended 2019 plan. We view this as a best practice to ensure financial funding to support incentive award payouts.

Another design element is the use of a modifier to adjust initial bonus funding either up or down. For this feature, the bonus funding is typically determined based on financial performance, but then may be adjusted by operational or customer performance measures.

Performance Measures

Performance measures send an important message about what the organization must achieve, and how individual employees can influence that achievement. While some organizations may have only a single financial funding measure, best practice is to identify a portfolio of performance measures to ensure appropriate balance across financial, operational and customer service performance. However, relatively few measures (e.g., 3-5) helps to ensure appropriate focus, and avoids diluting the award across too many measures with relatively little impact on the award. In addition to focusing on 3-5 performance measures, each performance measure should be weighted at least 10%. JEA has a portfolio of performance measures including financial and environmental values, customer value and community value.

While financial performance metrics will vary by industry and life cycle, our experience is that most organizations include at least one profit or income measure, with profit/operating income most common for both utilities and general industry.

For non-financial performance measures, environmental health and safety, as well as operating/strategic measures are most common in utility organizations.

Individual performance measures are common in both general industry and utilities industry. These may be tied to the annual performance management process, or may be specific MBOs that create line-of-sight to broader corporate measures. Alternatively, organizations may qualitatively consider individual performance through modifying the corporate payout. Increasingly, organizations question the return on the time required to develop and measure individual, rigorous goals; but they realize that line-of-sight goals are more motivating.

Performance Range

Performance ranges reflect the minimum acceptable performance as a percentage of target performance, and the maximum performance recognized, also as a percentage of target performance. Performance ranges can differ based on the performance measures used. Narrower performance ranges are generally used for measures where results are not expected to vary significantly from target (e.g., revenues). Wider ranges are more prevalent for measures where performance can fluctuate significantly from year to year (e.g., profitability). For utilities, the performance range for profitability is for minimum performance to be set at 90% of target and maximum performance to be set at 115% of target.