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Angie, Pat and Scott:

Attached is the updated committee meeting materials. We incorporated all of the edits we discussed on our last call. Please review and let us know if there are any additional changes.

Best regards,

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# Compensation Program Review – Discussion Document for Compensation Committee Meeting

Prepared for JEA

April 22, 2019

**Discussion Draft**

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# Introduction



# Introduction

## Summary

- JEA engaged Willis Towers Watson (“WTW”) to complete the following:
  - Conduct a competitive market assessment for JEA’s Chief Executive Officer (“CEO”) position
  - Review JEA’s competitive market assessments across all employee populations
  - Provide a summary of market practices related to short-term incentive plan design
  - Conduct a competitive market analysis of long-term incentive (“LTI”) plan design practices and develop a proposed design
- WTW presented its initial findings to JEA’s CEO, CFO and Human Resources team, and based on their feedback, this report includes the following:
  - Confirmation of JEA’s current compensation philosophy
  - Review of the evolution of JEA’s compensation programs
  - Analysis of the compensation variances for JEA’s Appointed population
  - Analysis of the gaps to market for JEA’s Appointed population and Bargaining Units
  - Proposed LTI plan design
  - Total rewards market best practices

# Compensation Philosophy Review

# Compensation Philosophy Review

## JEA's Current Compensation Philosophy

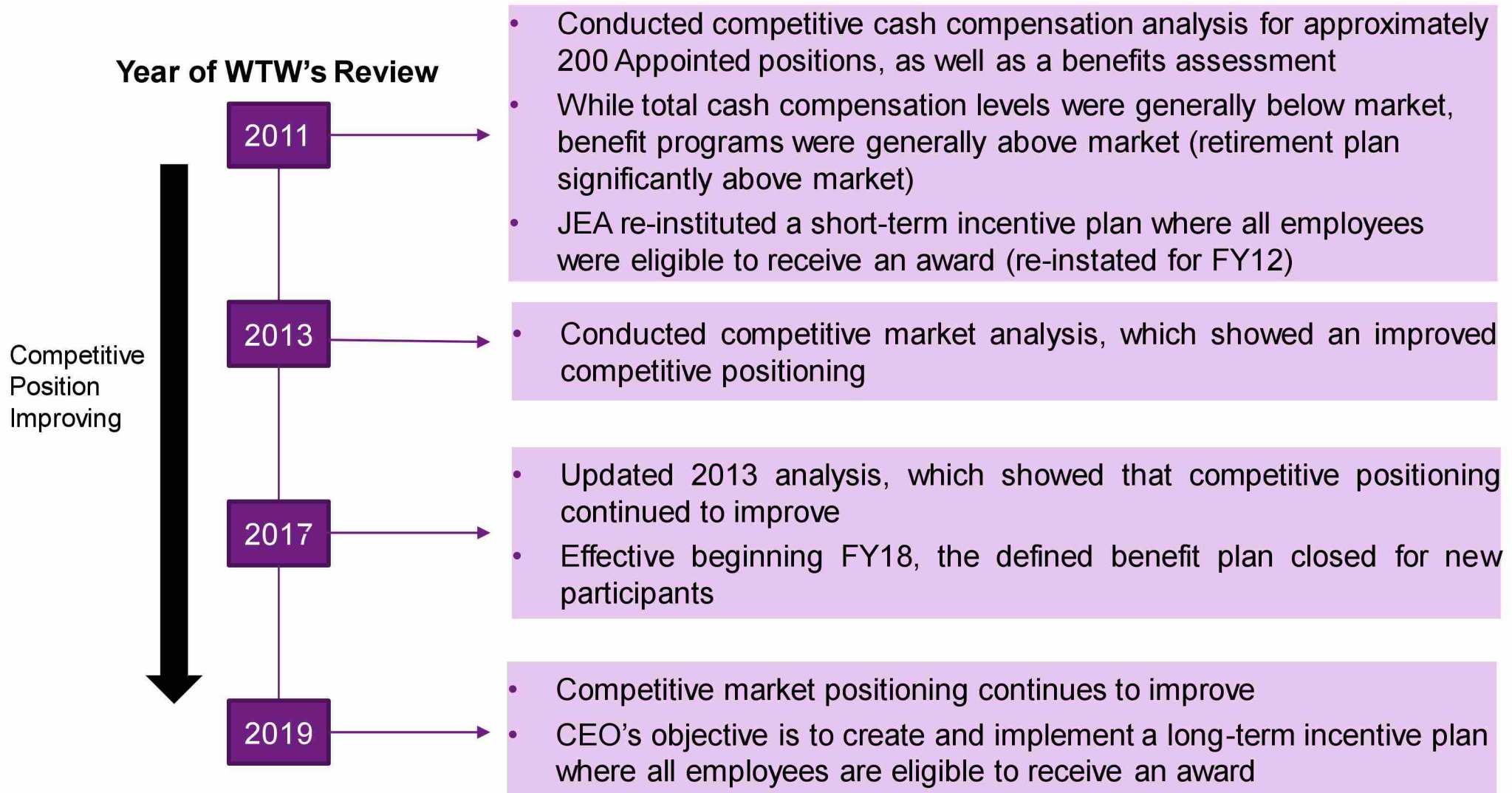
- The following table summarizes JEA's current compensation philosophy, which guided WTW's review of JEA's competitive market assessments:

Compensation Philosophy Element	Details
Alignment of Interest Between Employees, Stakeholders, and Organization	JEA's compensation philosophy should support the overall business and board strategy with the ultimate goal of driving performance of the organization
Market for Talent	JEA's geographic market for talent varies by job level: <ul style="list-style-type: none"> <li><u>Individual Contributors/Managers</u> – local and regional scope</li> <li><u>Directors/Executives</u> – national scope</li> </ul>
Target Competitiveness	Targets the market 50 <sup>th</sup> %ile for all pay elements
Pay Mix	JEA's pay mix currently consists of base salary and a short-term incentive award, but JEA is implementing a long-term incentive plan in 2020 to align the interests employees and stakeholders
Industry Perspectives	For <u>functional roles</u> – a 50/50 weighted mix of Utility/General Industry market data For <u>operational roles</u> – only Utility Industry market data

# Evolution of JEA's Compensation Program

# Evolution of JEA's Compensation Program

## Timeline of Goals and Major Changes

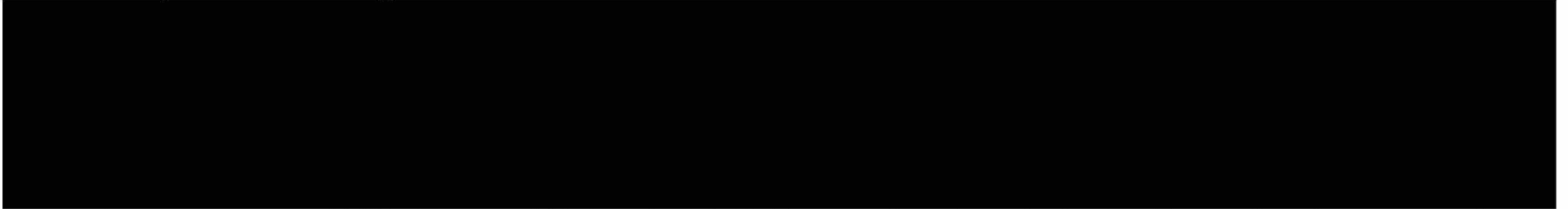


# CEO Competitive Market Pricing

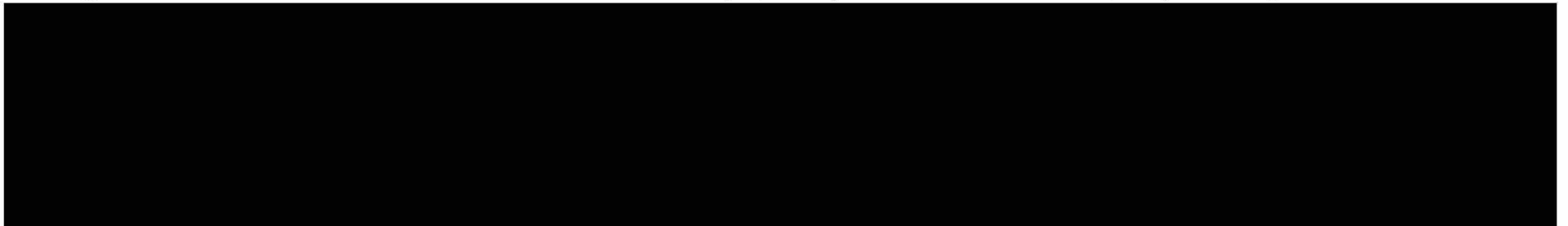
# CEO Competitive Market Pricing

## *Methodology*

- To conduct the competitive market pricing for the CEO position, a peer group was developed reflecting:



- Survey source: Willis Towers Watson's *2018 Energy Services Industry Executive Compensation Database*
- Target TDC for the Combined Peer Group perspective is built up by using this formula:





# CEO Competitive Market Pricing

## Market Pricing Details

Chief Executive Officer		Competitive Market Data <sup>(5)</sup>		
Pay Component	Data Perspective	25th %ile	50th %ile	75th %ile
Base (\$000s)	Combined Peer Group			
	Investor Owned Utility Peers			
	Public Power Peers			
Target Bonus % <sup>(1)</sup>	Combined Peer Group			
	Investor Owned Utility Peers			
	Public Power Peers <sup>(3)</sup>			
Target TCC (\$000s)	Combined Peer Group			
	Investor Owned Utility Peers			
	Public Power Peers			
LTI % <sup>(2)</sup>	Combined Peer Group			
	Investor Owned Utility Peers			
	Public Power Peers			
Target TDC (\$000s)	Combined Peer Group <sup>(4)</sup>			
	Investor Owned Utility Peers			
	Public Power Peers			

"—"= Data not available.

(1) Target bonus percentages are represented as a percentage of base salary.

(2) Long-term incentive (LTI) percentages are represented as a percentage of base salary. LTI figures are based on ASC 718 (FAS 123R) "accounting values".

(3)

(4) Target TDC for the Combined Peer Group perspective is built up by using Base Salary, Target TCC, and LTI % data.

(5) Market data greater than \$100,000 rounded to the nearest \$5,000.



# Compensation Benchmarking Summary

# Compensation Benchmarking Summary

## ***Methodology***

- The following page contains a summary of WTW's review of JEA's competitive market data for its Appointed population (including 13 executives)
- WTW reviewed the most current incumbent and market data provided by JEA
  - Market data for the positions below the Director-level reflect a -5% geographic differential to account for the cost of labor of Jacksonville, FL vs. the US national average
  - Analysis of competitive positioning focused on market data at the 50<sup>th</sup> percentile

# Compensation Benchmarking Summary

## *Appointed Population vs. Market 50<sup>th</sup> Percentile Variances By Job Level*

- The following exhibits summarize variances comparing incumbent pay data with market data from job weighted and incumbent weighted perspectives for the Appointed population only
- Variances are similar for both perspectives, and are lower to market for executives and directors at target bonus %, target TCC, and target TDC compared to the other job levels

### Job Weighted:

Level	Average Base Salary Variance	Average Target Bonus % Absolute Variance	Average Target TCC Variance	Average Long-term Incentive % Absolute Variance	Average Target TDC Variance
Executive	-12%	-33%	-28%	--	-42%
Director	-1%	-10%	-8%	--	-13%
Manager	-2%	-5%	-6%	--	-6%
Individual Contributor	-1%	-2%	-1%	--	-1%
Total	-2%	-7%	-6%	--	-7%

### Incumbent Weighted:

Level	Average Base Salary Variance	Average Target Bonus % Absolute Variance	Average Target TCC Variance	Average Long-term Incentive % Absolute Variance	Average Target TDC Variance
Executive	-12%	-33%	-28%	--	-42%
Director	0%	-10%	-7%	--	-12%
Manager	-3%	-5%	-6%	--	-6%
Individual Contributor	0%	-2%	1%	--	1%
Total	-2%	-5%	-4%	--	-6%

# Short-Term Incentive Plan Practices

# Short-Term Incentive Plan Practices

## *Introduction*

- JEA re-instated a broad-based short-term incentive plan several years ago, both to address competitive pay levels, as well as to reinforce specific messages related to performance expectations
- The following pages summarize market practices related to short-term incentive plan design
  - As appropriate, JEA may consider these practices as they continue to evolve their incentive plan design
  - Key design features covered include eligibility, target award opportunities, payout ranges, bonus pool funding, performance measures and performance range
- The market practices information has been summarized from survey research, as well as our consulting experiences

# Short-Term Incentive Plan Practices

## *Eligibility*

- Eligibility for short-term incentive plans is typically broad for both the Utility and General Industries, with prevalence actually higher in the Utility Industry (particularly at the lower job levels)
- Over 60% of organizations extend eligibility to the lower exempt and non-exempt roles
  - Lower roles may not have an expressed target opportunity, but they may be part of a “sharing program” based on organizational performance
  - In some cases, overall funding and participation at lower levels may be discretionary

## Short-Term Incentive Plan Practices

### *Target Incentive Award Opportunities*

- Target incentive opportunities typically increase with job level, and are relatively similar in both the Utility and General Industries
- Note that we have recommended STI targets as part of our analysis to “close the gap” between market and JEA’s desired competitive positioning

Target Incentive Award Opportunities – By Job Level


Role/Career Level	Target STI Opportunities	
	Utilities	General Industry
Senior Directors		
Managers		
Supervisors		
Senior Level Professionals		
Entry-Mid Level Professionals		
Non-exempt		

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



# Short-Term Incentive Plan Practices

## *Payout Ranges*

- Payout ranges reflect the total award opportunity as a percentage of the target award, and represent the minimum award opportunity if threshold performance is achieved, and the maximum opportunity if maximum performance is achieved
- Payout ranges are typically 50% of target at threshold performance and 200% of target at maximum performance
- 
- In most cases (and based on the specific performance standards), organizations will interpolate actual performance between threshold, target and maximum to provide appropriate incentive to improve performance at every possible increment
- Note that it is important to calibrate the payout range with the performance range to ensure that the awards are aligned with the probability of achievement



# Short-Term Incentive Plan Practices

## ***Bonus Pool Funding***

- There are two primary approaches to determine bonus pool funding:
  1. Sum-of-targets: specific target opportunities are defined (typically by role or grade) and the sum of these targets determines the bonus “pool” (the aggregated award which would be generated at target performance)
  2. Financial results-based formula: typically a financially-driven formula (e.g., bonus pool equals 10% of profits above a specific threshold)
- The sum-of-targets approach is typically the most common in both the Utility and General Industries
  - Prevalence for financial results-based formulas increases slightly for broad-based plans that are separate from executive plans because there is often a greater requirement that they be self-funding
- Particularly for sum-of-target plans, circuit breakers are a common design feature
  - A circuit breaker represents a single performance measure (typically a financial measure) that must be reached before any incentive award is paid regardless of performance in other measures
  - In other words, if the circuit breaker financial performance isn’t achieved, it shuts down the entire plan regardless of performance on other performance measures
  - Note that a financial circuit breaker may be set at levels below threshold levels for payout
- Another design feature is a modifier, which can be used to adjust the initial funding up or down based on another important measure (e.g. determine pool based on financial performance, and then modify by operational or customer performance measures)

# Short-Term Incentive Plan Practices

## *Performance Measures*

- Performance measures send an important message about what an organization must achieve, and how individual employees can contribute to those objectives
- We consider it a best practice to have a portfolio of performance measures to balance expectations across financial, operational and customer service categories
  - However, in order to ensure appropriate focus, we typically see 4-6 performance measures, with each measure having at least a 10% weight
- It is typical for organizations in both Utility and General Industry to include at least one profit or income measure, with profit/operating income being the most common in both industries
- For non-financial performance measures, environmental health and safety, as well as operating/strategic measures are the most common in the Utility Industry
- Individual performance measures are also common in the Utility and General Industries
  - These measures help create line-of-sight to broader corporate measures

## Short-Term Incentive Plan Practices

### *Performance Range*

- Performance ranges reflect the minimum acceptable performance as a percentage of target performance, and the maximum performance recognized as a percentage of target performance
- Narrow performance ranges are typically used for measures where results are not expected to vary significantly from target (e.g., revenues)
- Wider performance ranges are typically used for measures where performance can fluctuate significantly year to year (e.g., profitability)
- In the Utility Industry, performance ranges for profitability at minimum is typically set to be 90% of target and for maximum is typically set to be 115% of target
- An important consideration in establishing the performance range is the probability of achievement
  - A best practice is to set threshold performance goals where the probability of achievement is 80-90% to ensure appropriate motivation
  - Similarly, probability of achievement for target performance should be 50-60% and 10-20% for maximum performance
  - As noted earlier, it is important to calibrate the performance range with the payout range

# Long-Term Incentive Plan Design



# Long-Term Incentive Plan Design

## Introduction

Why Companies Have Long-Term Incentive Plans	Factor Driving JEA Inclusion of LTI
Focus on long-term performance and align performance to long-term business strategies	✓
Necessary component of a market competitive compensation program for investor owned utilities	✓
Aligns the interests of employees with stakeholders	✓
Fosters long-term retention	✓
Encourages teamwork and collaboration across groups, functions, businesses, etc.	✓
Rewards for long-term shareholder/stakeholder value creation	✓
Balances focus on short-term results that are driven by annual incentives	✓

# Long-Term Incentive Plan Design

## Market Practices Summary

Design Aspect	Public Power Utilities	Investor Owned Utility (IOU) Peer Group	Broader Utility Industry
<b>Prevalence</b>	LTI plans are uncommon, but used selectively	All 13 IOU peers have an LTI plan	LTI plans are very prevalent with almost all IOUs using an LTI plan
<b>Eligibility</b>	For those Public Power Utilities with an LTI plan, eligibility typically limited to select executives	Typically executives down to director level positions	Typically executives down to director level positions
<b>Target Opportunity (% of Base Salary)</b>	Varies widely based on the organization, but targets will be lower than IOU levels	Median for CEOs: 230% Median for NEOs*: 110% Median for Directors: NA	
<b>Award Frequency</b>	Annual awards with overlapping cycles are most common	All 13 peers grant annual awards with overlapping cycles	

NEOs\* = Named Executive Officers, as disclosed in the IOU's proxy statement.

# Long-Term Incentive Plan Design

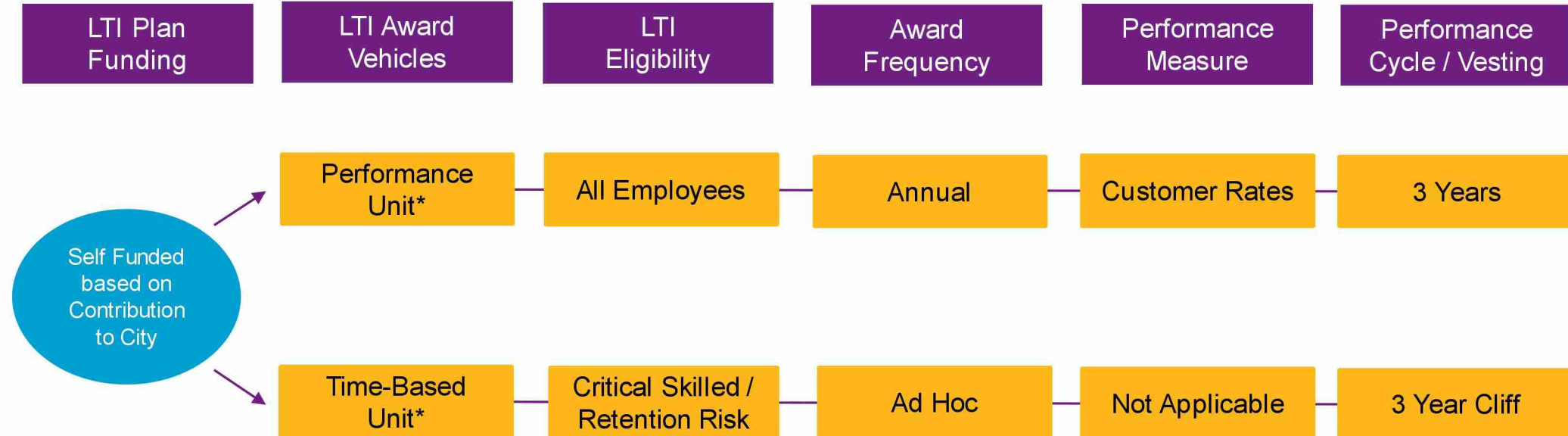
## Market Practices Summary (continued)

Design Aspect	Public Power Utilities	Investor Owned Utility (IOU) Peer Group	Broader Utility Industry
Award Vehicles	Cash-based performance plans	100% of peers use performance plans 69% use restricted stock No peers use stock options	
Performance Metrics	Financial and operational	TSR (100%) EPS (38%) Operational (15%)	
Performance Metrics Weights	Operational metrics weighted more heavily than financial metrics	TSR and financial metrics weighted more heavily than operational metrics	Not available
Performance Range	More conservative compared to IOUs	Relative TSR: 28 <sup>th</sup> %ile at threshold, 50 <sup>th</sup> %ile at target, and 90 <sup>th</sup> %ile at maximum	
Payout Range	Threshold: 50% of Target Maximum: 150% of Target	Threshold: 0-50% of Target Maximum: 150-200% of Target	

# Long-Term Incentive Plan Design

## Proposed Design

- Given consideration of the overarching goal to allow all employees the opportunity to share in the long-term success of the company, we propose a multi-pronged LTI design approach below:



\* Value of units tied to JEA Net Book Value.



# Long-Term Incentive Plan Design

## *Proposed Design Details: Performance Unit*

### Performance Unit

Plan Design Element	Plan Design Details
Award Vehicle	<ul style="list-style-type: none"> <li>Performance Unit: value of unit tied to JEA Net Book Value; unit valuation formula to be determined</li> </ul>
Eligibility	<ul style="list-style-type: none"> <li>All employees would be eligible in order to drive collective focus on JEA long-term performance</li> </ul>
Target Award Opportunity (as % of base salary)	<ul style="list-style-type: none"> <li>Award opportunities vary based on level in the organization (see page 31 for proposed targets); intent is to close competitive gap to market for LTI over 2 to 3 years. Proposed targets are intended to keep JEA compensation competitive with market 50<sup>th</sup> percentile</li> </ul>
Award Frequency	<ul style="list-style-type: none"> <li>Annual</li> </ul>
Circuit Breaker	<ul style="list-style-type: none"> <li>Defined level of contribution to the City will be established for each award cycle; intent is for contribution level to ensure LTI plan is self funded</li> </ul>
Performance Measures	<ul style="list-style-type: none"> <li>Net Book Value: used to determine Performance Unit value</li> <li>Customer Rates: performance measure used to modify the number of Performance Units earned; performance goal to be determined</li> </ul>
Performance Period	<ul style="list-style-type: none"> <li>3-year performance cycle with overlapping cycles due to annual grant frequency</li> </ul>
Payout Range	<ul style="list-style-type: none"> <li>Threshold: 50% of Target</li> <li>Maximum: 150% of Target</li> </ul>
Estimated Cost	<ul style="list-style-type: none"> <li>Estimated cost of annual Performance Unit awards to all employees based on current incumbent base salaries* is \$4M</li> </ul>

\*Bargaining Unit costs calculated based on step structure data if incumbent data are not available.

# Long-Term Incentive Plan Design

## *Proposed Design Details: Time-Based Unit*

### Time-Based Unit

Plan Design Element	Plan Design Details
Award Vehicle	<ul style="list-style-type: none"> <li>Time-Based Unit: value of unit tied to JEA Net Book Value; unit valuation formula to be determined</li> </ul>
Eligibility	<ul style="list-style-type: none"> <li>All employees eligible, but awards targeted to <b>critically skilled employees or employees viewed as retention risk</b>; awards generally intended for Manager level positions and below in order to enhance employee retention</li> <li>Target 10% of employees below the Director level (approximately 1,500 including Bargaining Units) or approximately 150 employees below the Director level to receive awards each year</li> </ul>
Target Award Opportunity (as % of base salary)	<ul style="list-style-type: none"> <li>Retention award values range from 10% to 20% depending on criticality of role and/or retention need</li> </ul>
Award Pool Funding	<ul style="list-style-type: none"> <li>Defined level of contribution to the City will be established each year with intent for contribution level to ensure LTI plan, covering both Performance Unit and Time-Based Unit awards, is self funded</li> </ul>
Award Frequency	<ul style="list-style-type: none"> <li>Ad hoc awards</li> </ul>
Vesting Period	<ul style="list-style-type: none"> <li>3-year cliff vesting period</li> </ul>
Estimated Cost	<ul style="list-style-type: none"> <li>Estimated cost of annual Time-Based Unit awards to employees below the Director level based on current incumbent base salaries* is \$1.2M</li> </ul>

\*Bargaining Unit costs calculated based on step structure data if incumbent data are not available.

# Proposed Compensation Adjustments

# Proposed Compensation Adjustments

## Competitive Pay Gaps to Market by Pay Element

- The following exhibit summarizes the current gaps to market for JEA's population (excluding the M&C roles due to lack of incumbent data) by each pay element:
  - JEA's base salary, target TCC, and target TDC show variances comparing incumbent pay to market for the Appointed population
  - Bargaining Units' pay elements and JEA target bonus % are based off of pay structures (many of the Bargaining Units are in step structures)
- Gaps to market exist at target bonus % and long-term incentive %, particularly for the executives and directors, which lead to higher variances to market at target TCC and target TDC

### Job Weighted:

Level	Average Base Salary/Midpoint Variance	Average Target Bonus %		Average Target TCC Variance	Average Long-term Incentive %		Average Target TDC Variance
	JEA	JEA	Market	JEA	JEA	Market	JEA
Executive	-12%	10%		-28%	--		-42%
Director	-1%	8%		-8%	--		-13%
Manager	-2%	7%		-6%	--		-6%
Individual Contributor	-1%	6%		-1%	--		-1%
Bargaining Units	11%	2%		8%	--		8%
Total	3%	5%		-1%	--		-2%

Note: Market data provided by JEA.



# Proposed Compensation Adjustments

## Proposed Base Salary, Target Bonus and Long-Term Incentive Adjustments

- **Base Salary:** assess individual competitive position to market; for individual positions well below market, JEA should bring positions to within the competitive range of the market median within two to three years, assuming that performance expectations are being met
- **Target Bonus % and LTI % (as % of salary):** the tables below summarize JEA's current average target bonus and LTI incentive opportunities and WTW's proposed target values
  - The proposed incentive adjustments are intended to partially close the gap to market with the intent of moving to market within two to three years, depending on market movement

Level	Target Bonus %			Current	LTI Opportunity %			Current	Total At Risk Compensation		
	Current	Market	Proposed		Current	Market	Proposed		Current	Market	Proposed
Executive	10%		20%	--			30%	10%			50%
Director	8%		10%	--			15%	8%			25%
Manager	7%		7%	--			3%	7%			10%
Individual Contributor	6%		7%	--			3%	6%			10%
Bargaining Units	2%		--	--			1%	2%			3%

- **Estimated Cost Impact:** the estimated incremental cost impact of the proposed target bonus and LTI adjustments are as follows:
  - Target Bonus Cost: \$400K based off current incumbent base salaries
  - LTI Cost: \$4M based off current incumbent base salaries for performance unit award (\$5.2M if time-based unit award is included)

Note: Market data provided by JEA.

# Proposed Compensation Adjustments

## Market Positioning Based on Proposed Pay Adjustments

- The following exhibit summarizes the competitive position of JEA pay based on WTW's proposed target bonus % and LTI % adjustments
  - JEA's competitive position to market improves at all levels with Executive level competitive gap to market target TDC cut in half
    - While a competitive gap to market for executives at target TCC and target TDC still exists, applicable base salary adjustments and multi-year approach for adjusting target bonus and LTI plan will close the gap
  - All levels except for executives at target TCC and all levels at target TDC fall within the competitive range of market (defined as +/-15% for target TCC and +/-20% for target TDC)

### Job Weighted:

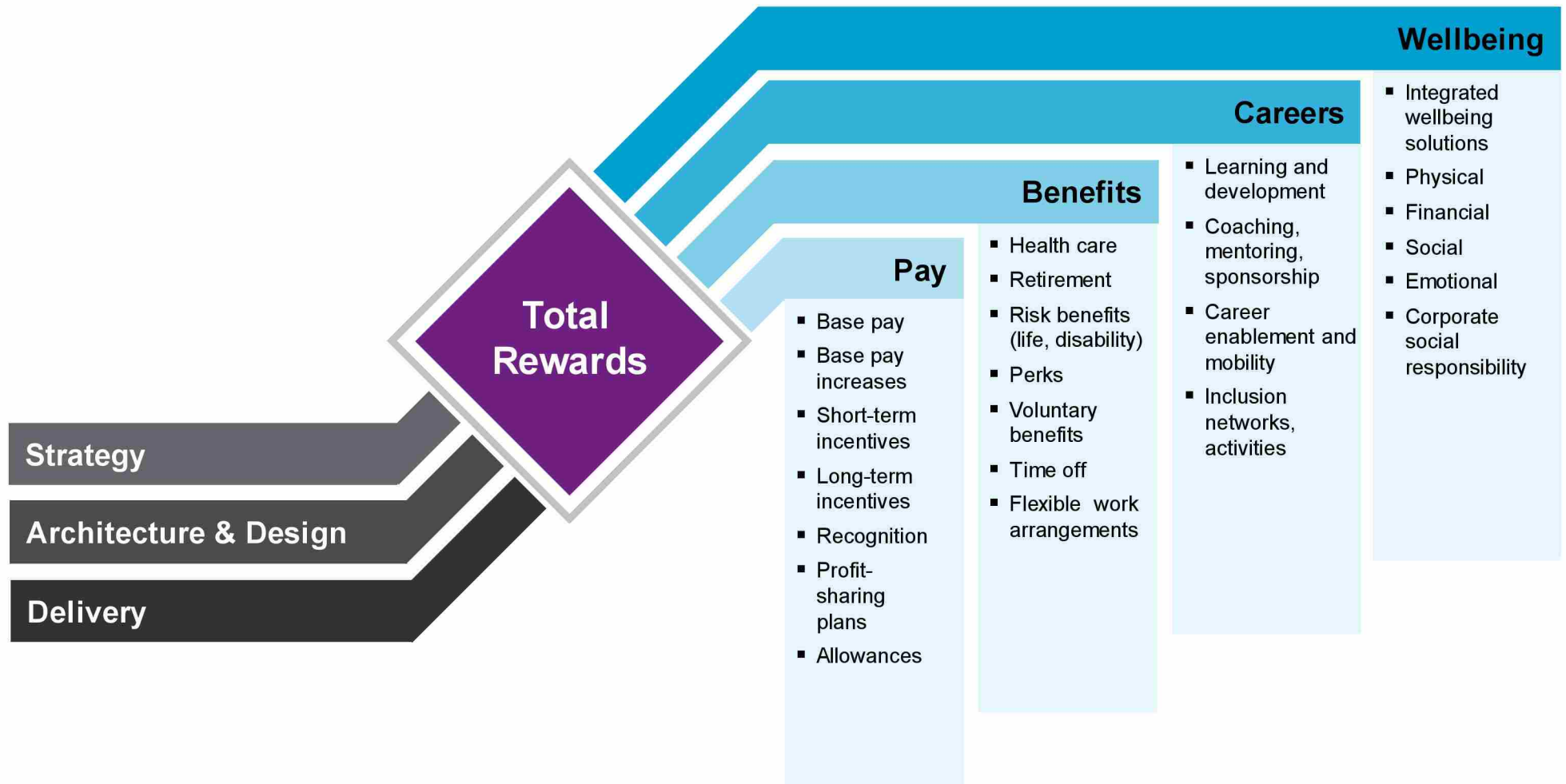
Level	Average Base Salary/Midpoint Variance	Average Target Bonus %		Proposed Target TCC Variance	Average Long-term Incentive %		Proposed Target TDC Variance
	JEA	JEA Proposed	Market	JEA	JEA Proposed	Market	JEA
Executive	-12%	20%		-22%	30%		-20%
Director	-1%	10%		-6%	15%		1%
Manager	-2%	7%		-6%	3%		0%
Individual Contributor	-1%	7%		-1%	3%		5%
Bargaining Units	11%	2%		8%	1%		9%
Total	3%	6%		0%	4%		4%

Note: Market data provided by JEA.

# Modernizing Total Rewards

# Modernizing Total Rewards

*Integrated Total Rewards strategy, architecture & design and delivery for a superior Talent Value Proposition*



Source: 2018 Willis Towers Watson Modernizing Total Rewards Survey



# Modernizing Total Rewards

**Key themes emerging in the market with implications for Total Rewards**

## 1. Future focused

Emerging work dynamics and skills and multi-generational workforce re-write the deal



## 2. Technology Advancements

Expansion of *digitization* of the Total Rewards delivery and experience



## 3. Optimising cost and risk of TR

Analytics and data measurement



## 4. Segmentation

More tailored Total Rewards with increased choice



## 5. Consumerism and flexibility

Expansion of worker choice and *voluntary benefits*



## 6. Transparency

Legislative and social media increase public scrutiny



## 7. Inclusion and diversity

Total rewards that enable an inclusive culture and diverse workforce



## 9. Talent experience

Emphasis on *workplace differentials* that enhance the environment and Talent Value Proposition



## 10. Good governance

Being *agile and nimble* to adapt to changing, fast-moving business strategies



## 8. Wellbeing

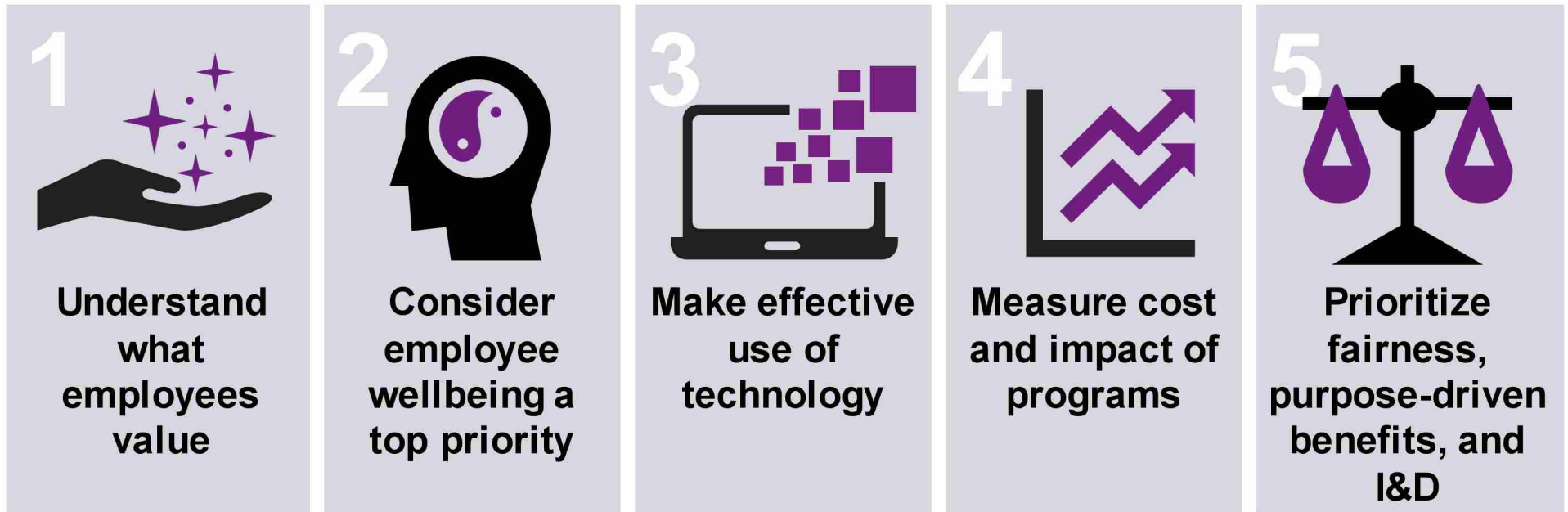
Holistic *physical, financial, social and emotional health*



Source: 2018 Willis Towers Watson Modernizing Total Rewards Survey

# Modernizing Total Rewards

*Our findings identify five areas critical to meeting employees' Total Rewards expectations and delivering a consumer-grade experience*



Source: 2018 Willis Towers Watson Modernizing Total Rewards Survey

# Appendix

# Appendix

## CEO Competitive Market Pricing Utility Peer Group

Organization	Ticker	Revenues (\$MMs)	Generation Capacity (MW)	Characteristics			
				Type	Generation	Transmission	Distribution

# Appendix

## ***Incentive Plan Review Methodology***

- The competitive market review of short and long-term incentive plan design practices covered the following:
  - Utility and General Industry market best practices were considered
  - Peer group reflecting a mix of Public Power Utilities and comparably-sized IOUs was developed for the LTI plan design review
- Sources:
  - WTW's *2018 General Industry and Energy Services Executive Compensation Survey Report*
  - WTW's *2018 General Industry and Energy Services MMPS Compensation Survey Report*
  - WTW's *2018 Long-Term Incentives Policies and Practices Survey Report – General and Utility Industries data cuts*
  - WTW's *2018 Global Executive Incentive Design Survey*
  - Consulting experience with broad-based and executive compensation practices in both the Utility and General Industries



# Appendix

## ***LTI Plan Design Review Utility Peer Group***

### ***IOUs (13 Companies)***

- ALLETE
- Alliant Energy
- Avista
- Black Hills
- El Paso Electric
- Hawaiian Electric Industries
- NorthWestern Energy
- OGE Energy
- Otter Tail
- Pinnacle West Capital
- PNM Resources
- Portland General Electric
- Vectren

### ***Public Power Utilities***

- *Six public power utility clients*
- *Anecdotal consulting experience*