

Seattle City Light General Manager/CEO Position DRAFT SALARY ANALYSIS AND RECOMMENDATIONS

August 2013

ISSUE

What would be an appropriate salary adjustment for the Seattle City Light General Manager/CEO position?

BACKGROUND

The SCL GM/CEO pay band structure was adjusted in the 2013 Pay Zone Ordinance: the range was adjusted from 50% to 60% range spread, with a minimum of \$157,330 and maximum of \$251,750. The GM/CEO's current salary is \$244,954, which represents 93% penetration of the current pay band.

RECOMMENDATIONS

One of the findings in this year's analysis is an upward trend in the salaries of Head of Utilities. The trend is observed in both national and regional level data. The external market analysis indicates that the SCL GM/CEO is paid below market. Additionally, given the compression and structural inversion between the SCL GM/CEO and the EUE 3 Officer, there is reason to adjust the GM's actual salary and to adjust the pay band structure to accommodate the salary increase and the structural inversion.

The market analysis provides a range of \$295,000 (regional market median) to \$354,711 (national market median) for consideration of an actual pay increase for the SCL GM/CEO. Even the lower regional median of \$295,000 would reflect a substantial increase (20.43%) above the GM/CEO's current actual salary of \$244,954. An increase to the higher, national median of \$354,711 would be a 44.8% increase.

A structural adjustment to the SCL GM/CEO pay band would also be required. In considering the potential structural adjustment it is recommended that it: 1) maintain the 60% band width; 2) address structural inversion with the EUE 3 Officer position; and 3) allow for prospective salary adjustment(s).

ANALYSIS

External Market

A key consideration in surveying the GM/CEO's salary with the external market is to determine comparable organizations for inclusion in the analysis. The first cut used in 2012 and again in this 2013 analysis is to include public power organizations only. The next question is which public power organizations to include. One common industry measure of comparability is size of peer organizations, determined through financial indicators such as revenue.

In accordance with industry practice, the influential proxy advisory firm Institutional Shareholder Services (ISS) provides a published guideline for potential peer selection. The 2012 published guideline states that revenue of peer organizations should fall within the range of 0.4 to 2.5 times the company's revenue; this analysis uses the revenue criterion range of 0.5 to 2.0, which is the most common range cited in proxy statements.

Data Collection

For studying the pay of City Light's GM/CEO position, Classification/Compensation generated a list of 16 peer organizations comprised of public power utilities within the revenue size of 0.5 times to 2.0 times Seattle City Light's 2012 revenue, which was \$800M. The 2012 reported revenue of these 16 peer organizations consequently ranged between \$400M to \$1,600M. These 16 organizations also participated in the 2008 Custom Hay Survey, 2011 LPPC Survey or 2012 Milliman Utilities Survey.

Classification/Compensation requested the annual salary of the first level executive at these comparable organizations. Information on bonuses and allowances were also requested; but bonus and allowance responses were sparse. Of the 16 comparable organizations, salary data from 11 organizations was gathered and included in the overall average. Five organizations did not respond by the cut-off date despite follow-up phone calls.

Of the 11 data points in Personnel's analysis, 5 were provided by City Light. City Light provided a market average of 20 organizations; however, only 5 of the 20 organizations meet the criteria of being a public utility and within 0.5 times to 2.0 times SCL's revenue size. Appendix 2 lists the 20 organizations identified by SCL.

External Market Findings

National Data: The use of national data for executive jobs is appropriate because Seattle competes nationally for executive talent and specifically for the SCL GM/CEO position. Thus, a geographical differential was applied using Seattle as the base city. The market median for the 11 comparable public utilities is \$354,711 and the average is \$313,468. This market median of \$354,711 is an increase of 40.90% over the current range maximum for the SCL GM/CEO position.

Regional Data: To compare how the market is trending in Washington State to the national level, data from 5 regional utilities were also collected: Chelan County PUD, Grant County PUD, Clark Public Utilities, Tacoma Public Utilities and Snohomish PUD. Of these 5 organizations, Snohomish PUD is the only organization that meets the revenue criterion used for national utilities and is consequently included in both the national and regional analysis. The market average of the 5 regional organizations is \$288,257 and the median is \$295,000; the market median is about 17.18% above the current range maximum for the SCL GM/CEO position.

The table below summarizes market data collected in 2013 for benchmarking of the City Light GM/CEO position. The market data collected for this analysis is attached as Appendix 1.

Data Cut	Market Average	Market Median	% Difference of Market Median to Position's Range Max
Salary Range of SCL GM/CEO position	-	-	\$157,331 - \$251,750
National	\$313,468	\$354,711	-40.90%
Regional	\$288,257	\$295,000	-17.18%

Internal Alignment

The internal analysis for the GM/CEO position identified two concerns. There is only a 5.52% differential in actual pay between the GM/CEO and the Electric Utility Executive 3 (EUE3) Officer, the second level executive at City Light. Second, the GM/CEO pay band max is 1.78% **below** the EUE3 Officer pay band, creating an inverted, structural relationship between the GM and the subordinate position.

	Actual Pay	Min	Mid	Max	Range Spread	Diff at Max	Actual Pay Diff	Range Penetration
City Light GM/CEO	\$244,954	157,331	204,540	251,750	60%	-1.78%	5.52%	92.80%
Elec Util Exec 3, Officer	\$232,140	160,212	208,257	256,323	60%	-	-	74.84%

CONCLUSION

A significant pay adjustment will be required to bring the GM/CEO position in line with the external market and to address the identified internal concerns. Consequently, a plan that would phase-in adjustments gradually over time rather than all at once may be more feasible to achieve.

Appendix 1: Market Data Collected

Organizations	SubGroup	Revenue (\$M) - Electric Only	Financial Date	2013 Salary	ERI GeoDifferential	GeoDiff Applied Salary
Seattle City Light	Public Power Utility	\$800	12-Dec	\$244,954	-	-
Regional Organizations						
Chelan PUD	Public Power Utility	\$239		\$295,000	100%	\$295,000
Grant County PUD	Public Power Utility	\$268		\$245,000	100%	\$245,000
Clark Public Utilities	Public Power Utility	\$345		\$235,000	100%	\$235,000
Tacoma Public Utilities	Public Power Utility	\$364	12-Dec	\$309,795	100%	\$309,795
National Organizations						
Snohomish County PUD*	Public Power Utility	\$591	12-Dec	\$356,488	100%	\$356,488
Imperial Irrigation District	JAA/IOU/UCO	\$405	12-Dec	\$241,596	94.4%	\$228,067
Knoxville Utilities Board	Public Power Utility	\$501	12-Jun	\$275,000	87.2%	\$239,800
MEAG Power (Municipal Electric Authority of Georgia)	JAA/IOU/UCO	\$814	12-Dec	\$443,000	93.3%	\$413,319
Colorado Springs Utilities	Public Power Utility	\$877	12-Dec	\$276,750	91.8%	\$254,057
Nebraska Public Power District	JAA/IOU/UCO	\$1,081	12-Dec	\$414,750	85.9%	\$356,270
Lower Colorado River Authority	JAA/IOU/UCO	\$1,262	12-Jun	\$395,000	92.2%	\$364,190
Memphis Light, Gas & Water	Public Power Utility	\$1,271	12-Dec	\$215,010	88.90%	\$191,144
Sacramento Municipal Utility District	Public Power Utility	\$1,382	12-Dec	\$425,267	95.60%	\$406,555
City of Austin (Austin Energy)	Public Power Utility	\$1,400	2011	\$299,416	94.70%	\$283,547
JEA	Public Power Utility	\$1,473	12-Sep	\$381,000	93.10%	\$354,711
National Average						\$313,468
National Median						\$354,711
Regional - Average						\$288,257
Regional Median						\$295,000

Note:

*Both national and regional data included Snohomish PUD.

Appendix 2: Market Data Collected by SCL

SCL provided the following data for consideration. Of the twenty organizations, six meet the revenue criterion of 0.5 times to 2 times SCL's. Five organizations were included in the regional data. One organization is not a public utility and five other organizations are not within comparable revenue size.

Organization	2013 GM/ CEO Salary	Revenue Size (\$M)	Notes
GROUP 1			
Colorado Springs Utilities	\$276,750	\$877	Included in National
JEA	\$381,000	\$1,473	Included in National
Lower Colorado River Authority	\$395,000	\$1,262	Included in National
Nebraska Public Power District	\$414,750	\$1,081	Included in National
Sacramento Municipal Utility District	\$425,267	\$1,382	Included in National
Snohomish County PUD	\$356,488	\$591	Included in National
GROUP 2			
Clark Public Utilities	\$235,000	\$345	Included in Regional; revenue size is not in comparable range
Grant County PUD	\$245,000	\$268	Included in Regional; revenue size is not in comparable range
Chelan PUD	\$295,000	\$239	Included in Regional; revenue size is not in comparable range
Tacoma Public Utilities	\$309,795	\$364	Included in Regional; revenue size is not in comparable range
GROUP 3			
Platte River Power Authority	\$275,000	\$190	Revenue size is not within 0.5X - 2X SCL's
GROUP 4			
Los Angeles Department of Water and Power	\$345,000	\$3,082	Revenue size is not within 0.5X - 2X SCL's
Santee Cooper	\$416,667	\$1,887	Revenue size is not within 0.5X - 2X SCL's
CPS Energy	\$425,000	\$2,213	Revenue size is not within 0.5X - 2X SCL's
Salt River Project	\$863,000	\$2,753	Revenue size is not within 0.5X - 2X SCL's
GROUP 5			
Puget Sound Energy	\$799,365	\$32,300	This is not Public Utilities; not only is the base pay structure different, the total pay structure is different. The full package of CEO at PSE can be found on their SEC filings.

Note:

*SCL's spreadsheet included 3 organizations with no data. The 3 organizations are Puerto Rico Electric Power Authority, Imperial Irrigation District and Austin Energy.

* GROUP 1 consists of national power utilities with revenue sizes that are within 0.5X – 2X SCL's revenue, or between \$400 million and \$1600 million.

* GROUP 2 consists of power utilities within WA State.

* GROUP 3 consists of national power utilities with revenue size smaller than 0.5X SCL's revenue.

* GROUP 4 consists of national power utilities with revenue size larger than 2X SCL's revenue.

* GROUP 5 is a private sector organization.