

### Utilities Benchmark 2023 Now Underway

#### 2022 - A Year of Volatility

Each year we undertake a benchmark analysis of board, CEO and executive remuneration in the Utilities Sector across Australia and New Zealand. In March 2023 we expect to publish our next benchmark report. It will cover 68+ utility organisations. Analysis is well underway and early indications are that there has been volatility in 2022 across the market on these fronts:

- We expect the median FAR increase for executives (the same incumbent) in 2022 to come in at around 3.0%. The spread is broad ranging from those who did not receive an increase to those who received around 10.0%. The restraint of the previous two years is a thing of the past.
- There has been churn across executive ranks in Australia and New Zealand. The demand for capable executives, particularly those with engineering and project management skills, has been high and companies are paying a premium to attract the right people.
- STI awards have recovered somewhat from the previous year. Queensland Government owned utilities did not make an STI award in 2022. However most private sector utilities did and awards ranged from 40.0% to 100.0% of maximum opportunity.
- A number of companies took the opportunity in 2022 to review their executive remuneration strategy. Some varied the balance between STIs and LTIs and others sought to re-align their market positioning for FAR.
- In contrast board fee increases have been comparatively flat in 2022. Some companies reduced fees during the year while others kept them on hold. A number have not increased board fees for 2+ years.

In the next section we examine some of the factors that will influence FAR reviews in 2023.

*Continued on Page 2*



### Utilities Benchmark 2023 Report Now Underway

**In 2022 our Utilities Benchmark covered 61 organisations across Australia and New Zealand. Contact Geoff Nunn if you are interested in participating in 2023. We expect to cover 68+ organisations.**

See: <https://www.gna.net.au/utilities-benchmark>

#### Geoff Nunn & Associates

Geoff Nunn & Associates was established in 1993 as an independent provider of remuneration and governance services to the government and corporate sectors. We specialise in working with Boards and CEOs in the areas of board and executive remuneration strategy, corporate governance, board dynamics and renewal, and governance structures.

#### Our Services

- Board & Executive Remuneration
- Innovative Remuneration Solutions
- Utilities Benchmarking
- Remuneration Governance
- Board Governance Advice
- Focused Board Renewal
- Board Charter Drafting

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# Remuneration Planning For 2023

## How Should We Plan for 2023?

The market contains a number of uncertainties for 2023. The CPI in Australia hit 6.9% in the fourth quarter and New Zealand experienced a similarly high figure. The forecast range for Australia is 2.5% to 3.5%, with 4.2% for New Zealand. Governments are sometimes slow to respond to shocks in the global economy whereas markets respond quite quickly. The spike in commodity prices in 2022 and its flow-on to retail goods is a case in point. But inflation looks certain to level off in 2023 after a roller coaster ride this year. We track FAR movements in the Utilities Sector and our forecast for the CEO and executive team for 2023 is 3.0%.



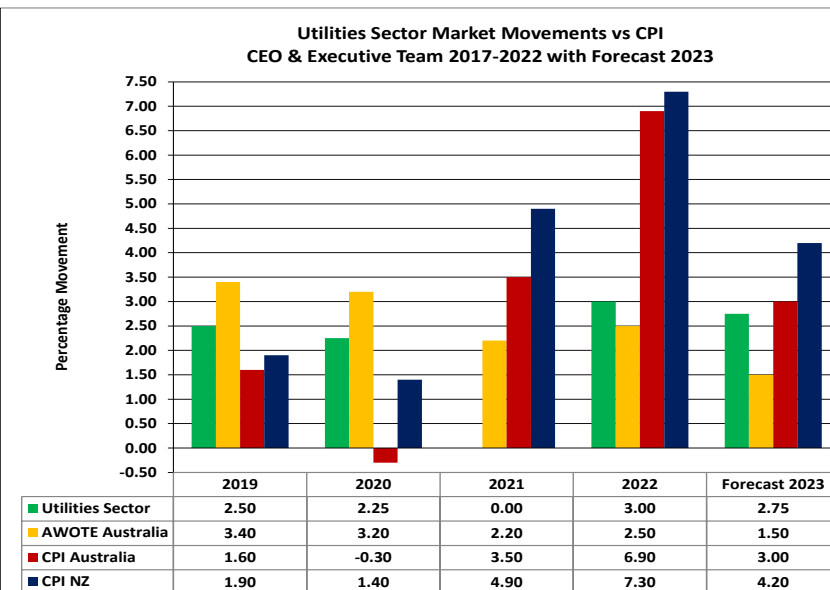
**COO (Continued):** the COO may be paid up to 70.0% of the CEO with a similarly structured package. Typically the COO will come from an engineering base.

**Chief Financial Officer:** the CFO has always been a key role in any organisation. The challenge is to find a CFO who can simultaneously maintain a strategic perspective and be across the detail. A top CFO in a medium to large energy-based utility can command a package of \$1.0m+. There are some good ones around and they know what they're worth.

**Chief Information Officer:** it can be tricky to find the right CIO. We've been involved with a couple of utilities recently where it's taken 6-9 months to make an appointment. For the most part CIO skills are transferable across industry sectors and it's hard to compete with the financial services and resources sectors. So be prepared to dig deep for the right CIO.

**General Manager Strategy:** right now we're in the middle of an energy and renewables revolution. It's not BAU and companies need the right GM Strategy who can be across global developments in this space. We're doing some great work in Australia. But for some it's catch up as successive Federal governments have failed to provide the right policy frameworks. The States and private sector are now stepping into the fold. Getting strategy right is an imperative for all utility companies and you need to be prepared to pay a premium to get the right person. They are around and they also know their value.

Utilities Sector Market Movements vs CPI  
CEO & Executive Team 2017-2022 with Forecast 2023



Demand for key executive roles, driven largely by renewable energy projects and renewal of existing infrastructure, will continue in 2023. The following roles are attracting a premium:

**Chief Executive Officer:** finding the right CEO has always been a key challenge for the board. We've seen some real success stories from locally grown CEOs and some spectacular failures of much-touted imports. Who can forget the Sol Trujillo and the three amigos saga with Telstra. The right mix of strategic leadership and industry knowledge is essential in the Utilities Sector and we have some very strong contenders for the top spots in Australia and New Zealand. Expect to pay a 10.0% to 15.0% premium to entice a good CEO to move plus a payout of a percentage of any undelivered STI and LTI awards.

**Chief Operating Officer:** the COO is often the second most senior role (along with the CFO) in an operating utility company hierarchy. The operations are the engine room of the company and the skills required to keep the engine ticking over are very much sought after. Particularly when there is the need to renew and maintain aging infrastructure.

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# Remuneration Planning For 2023



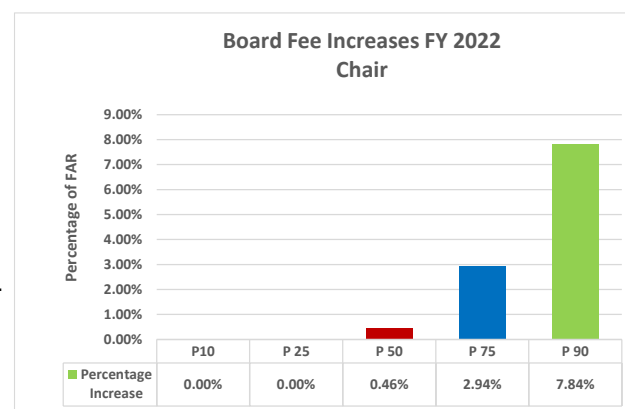
## A Word About Board Fee Reviews

As mentioned on page 1 movement on board fees remained flat during 2022. Some NZ energy-based utilities made adjustments of up to 10.0%. A significant number of Australian companies kept board fees on hold and some reduced fees.

For non-executive directors it's not just about the money. It's about contribution and involvement. It's about bringing very considerable expertise to the board table to guide the success of the company. That said board fees need to be appropriate for company size, industry sector and board role. In undertaking the board review in 2023 we recommend:

1. Benchmarking all board roles against like organisations.
2. Considering how you are placed within any cap that might have been approved by shareholders and whether the cap needs to be re-visited.

Our Utilities Benchmark 2023 covers board fees. Here's some preliminary figures for the chair:



Contact Geoff as below if we can offer assistance.

## Key Review Considerations for 2023

The above discussion of key executive roles was intended to set the scene for the upcoming review of FAR. STI and LTI Plans reward corporate and individual performance. But outcomes are subject to a range of variables that are sometimes outside of the control of the board and executive team. Getting FAR right is critical particularly if your company has a great team of executives. They will be tapped on the shoulder at some stage and if you haven't got the right package in place some might be tempted to make a move. So here are some of the things you need in the lead up to your next FAR review:

1. Benchmark the CEO and key executive roles against like utility organisations. Government owned utilities pay differently to private sector ones and are generally subject to greater regulation. Whereas private sector utilities focus more on "at risk" STI and LTI plans. Check for market hot-spots as discussed on the previous page and assess whether a response is required.
2. Assess you target market position. Pitching too high will fuel the market and waste financial resources. Pitching too low will cause attraction and retention issues. Striking the right balance is essential to secure the best executive team.
3. Does the annual assessment against agreed KPIs realistically capture the performance and contribution of each executive? Some may have made a strong contribution in ways that are not readily recognised within your performance framework. Others may have experienced favorable circumstances which have boosted their ranking. Adjustments may be required.
4. Consider where each executive is placed within the range for the job (compa-ratio). If the executive is relatively low in relation to their performance an ad-hoc adjustment might be required outside the normal review framework. It's better that your executives feel recognised than having to fend off offers.
5. Check the level of restraint that's been exercised over the last two years. Has it resulted in the misalignment of any executive team members and is a correction required?

The annual review of FAR is an important communication exercise. It's not just about the numbers. Its about the message you send to each member of the executive team; how they are valued for their contribution, how they are an integral part of the team; where improvements might be required and what they need to do to maximize their potential. The GM People & Culture will be a strong support to the Chair, Board and CEO in this process.

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