

Remuneration Growth for Executives Set to Continue in 2024

2023 A Year of Solid Increases

The market for executive remuneration strengthened in 2023. Demand for capable executives rose significantly in energy-based utilities as a range of projects progressed. The renewable sector is expanding rapidly and many have been in recruitment mode. Some are paying a premium to attract the right people.

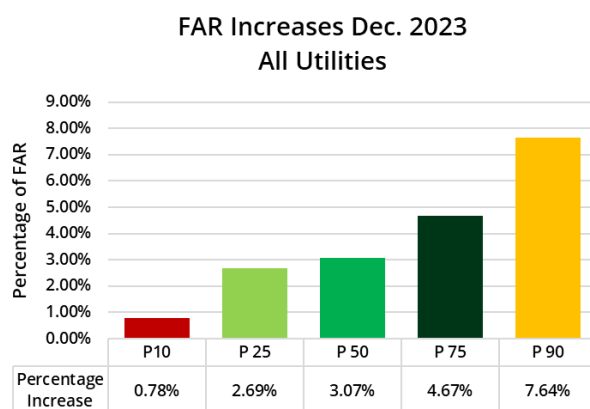
Energy-based utilities are in a state of transition. All are up-grading existing infrastructure. Most have multiple renewable projects underway. Some have diversified into solar installation, smart hubs and other technologies. In 2023 Epic Energy was awarded preliminary contract status as part of the SA Government's Hydrogen Hub:

"Epic Energy has entered an Early Contractor Involvement (ECI) agreement with the (SA) Government to develop an integrated pipeline and hydrogen storage solution for its Hydrogen Jobs Plan in Whyalla in the Upper Spencer Gulf."

Epic Energy Website 25.10.2023

Likewise, water companies are embracing renewable technology. Many have installed solar and wind generators to power operational facilities. Recycling and desalination continues to grow in importance to the future of water supply.

This results in growth in executive remuneration. The median increase is 3.07% in the overall utilities market. We've seen some increases as high as 10.0% as companies recognise performance and the need to keep their best people. The following graph illustrates:



In this Newsletter we discuss the market movements in the utilities and renewables sectors. We provide guidelines on how companies might approach the upcoming review of Fixed Annual Remuneration. On page 3 we provide an overview of the "State of the Market" and offer some forecasts for 2024.

Geoff Nunn & Associates

Geoff Nunn & Associates was established in 1993 as an independent provider of services to the government and corporate sectors. We specialise in working with boards and CEOs in the areas of remuneration governance, remuneration strategy development, remuneration structures, non-equity variable reward plans and remuneration committee charter drafting.

Our Services

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

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Board & Executive Remuneration Reviews—2024



The Renewables Revolution

Approaching the 2024 Annual Review

The conduct of Fixed Annual Remuneration Reviews for the CEO and executive team raises a number of key issues. We suggest remuneration committees take into account the following factors when considering how to proceed with this year's review:

1. **Benchmarking.** As mentioned above the market for top executives was strong in 2023. You need to benchmark your executives against like organisations to understand current positioning. Restraint might be inappropriate. Our 2024 *Utilities Benchmark and Renewables Benchmark* provide a good starting point for your market reality check.
2. **Executive Team Profile:** We believe the following roles will continue to be in high demand during 2024:
 - Chief Executive Officer
 - Chief Operating Officer
 - Chief Financial Officer
 - Chief Information Officer
 - General Manager Strategy
 - General Manager Assets/Major Projects

This demand will push up rates as companies vie for top performers. Whilst remuneration is only one factor in an executive's decision about changing jobs, it is an important one. High calibre executives know their worth in the marketplace. Major developments, particularly in the renewables space, will fuel the market.

3. **Affordability:** Our *Utilities and Renewables Benchmarks* indicate that revenue and return on equity were strong for many companies in 2023. However, we caution against overly generous increases. Once an increase is awarded it's hard to backtrack in the event of a future financial downturn.
4. **The Risk Environment:** a number of risks continue to confront utility and renewable companies which have the potential to impact corporate performance. To name some:
 - **Key Person Risk:** the loss of key directors and executives to competitors or clients.
 - **Climate Risk:** environmental degradation resulting in further catastrophic weather events which damage infrastructure.

The Risk Environment (continued)

- **Economic Risk:** a meltdown in financial markets which results in an increase in the cost of capital and rising unemployment.
- **Cyber Risk:** attacks on key operational systems.
- **Regulatory Risk:** an unfavourable regulatory decision compromising an entities economic viability.

Some Key Strategy Questions

Boards and Remuneration Committees need to ask a few key questions when approaching the 2024 review of fixed remuneration. They also need to ensure that their broader executive remuneration strategy is facilitating the attraction and retention of the best senior leaders:

1. Is our market positioning for Fixed Annual Remuneration going to enable us to attract the best CEO and executive team?
2. Is the balance of short and long term incentives appropriate to reward performance?
3. Have we got the right tracking mechanisms in place to enable us to effectively evaluate corporate and individual performance?
4. Have we documented our board and executive remuneration strategy effectively and does it meet governance requirements?
5. Have we communicated effectively with our CEO and other executives about the content and purpose of our executive remuneration strategy?

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State of the Market Utilities 2024

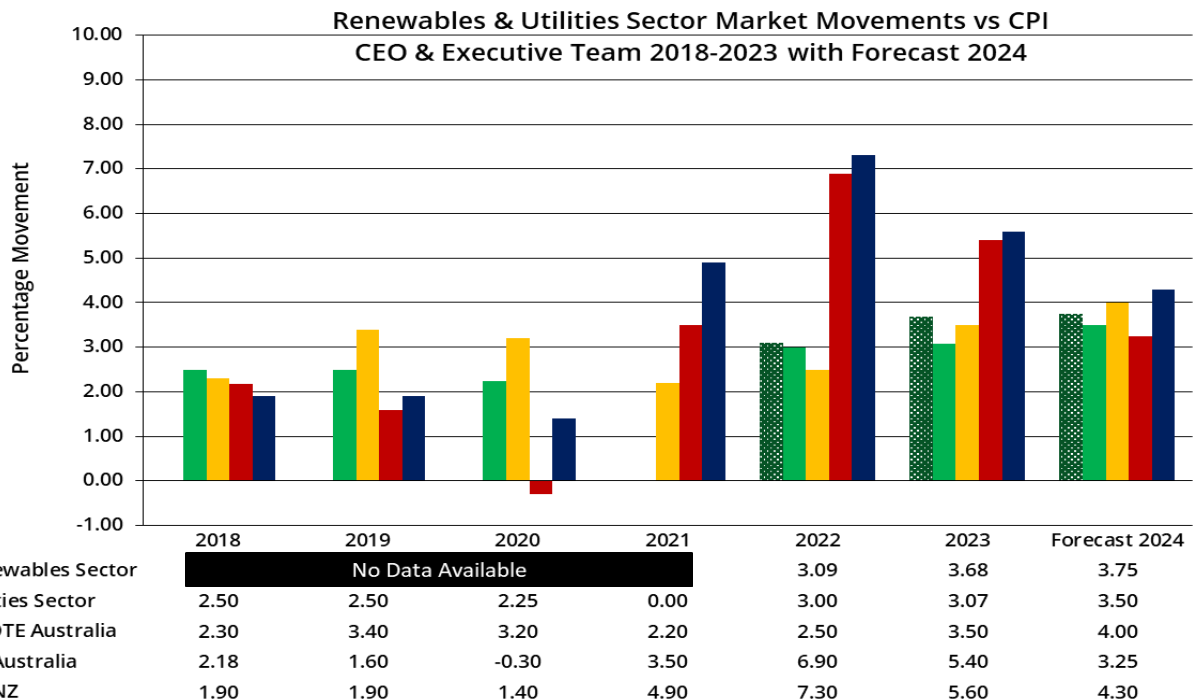


A Strategic View

How is the Market Tracking for CEO and Executive Remuneration?

Each year we monitor movements in CEO and executive team remuneration and have done so for many years. One thing we've observed over the last 12 months is that there is "pressure" in the market. As companies vie to secure the best leadership team many are paying a premium attract the right people. The following graph tells the story of utilities movements over the last five years together with our forecast to FY 2024:

As mentioned previously retention is not just about the money. It's about opportunity to achieve, board and leadership relations, stakeholder engagement, proactive and empathetic cultures and development opportunities. It's about the opportunity to be part of the future.



Market forecasts of 3.5% to 3.75% movement in fixed remuneration may prove to be conservative. Already renewable companies are soaking up key people from traditional utilities and other sectors. Some skill sets are readily transferable, such as GM People, CFOs and CIOs. Others are more industry specific such as the GM Strategy and COO.

Contact us if we can assist. We're tracking development across the general utilities market, electricity, gas and water as well as the expanding renewables sector. We've been in this space for 25 years and know it well. Our expertise covers board and executive remuneration as well as corporate governance.

Retention is important. A medium sized private sector utility looking for an experienced CEO might expect to offer a package of up to \$1.5 m (Total Reward Opportunity). Search consultant fees could run \$150k to \$225k. If the employing company needs to buy out undelivered STI and LTI awards from the previous employer this could add a conservative \$200k to the cost of recruitment. The message: do what's required to keep your good leaders.

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