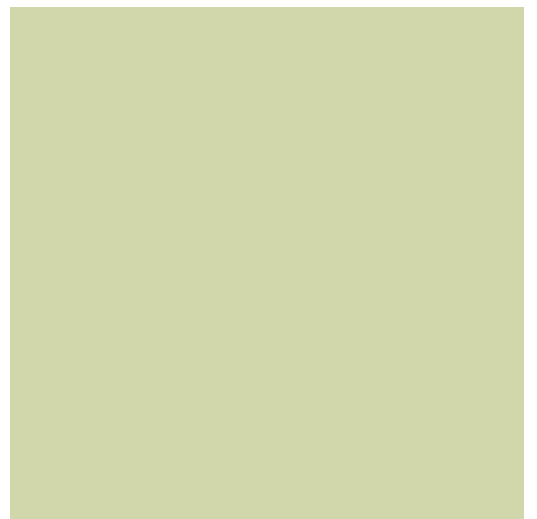




TRENDS AND ISSUES REPORT

Utility Industry CEO/CFO Pay Study



Utility Industry CEO/CFO Pay Study

Major U.S. utilities face the dual challenges of deregulation and diversification wrought by energy generation and delivery issues, the growth of alternative energy initiatives, and the ongoing energy crisis. This new environment makes it increasingly difficult to manage executive compensation programs so that payouts are primarily driven by actual performance, rather than by market forces.

Pearl Meyer & Partners' **Utility Industry CEO/CFO Pay Study** provides perspective in current pay practices by examining executive pay programs among 45 large U.S.-based utilities in 2007, as reported in 2008 public filings. These companies, which are listed in the Appendix, average \$8 billion in revenues and have an average market cap of \$10 billion.

Study Approach

The report analyzes the major components of CEO/CFO pay programs:

- Base Salary
- Annual Incentive
- Total Cash Compensation
- Long-Term Incentive
- Total Direct Compensation
- Vesting Schedules
- Performance Metrics
- Equity Dilution

General Trends

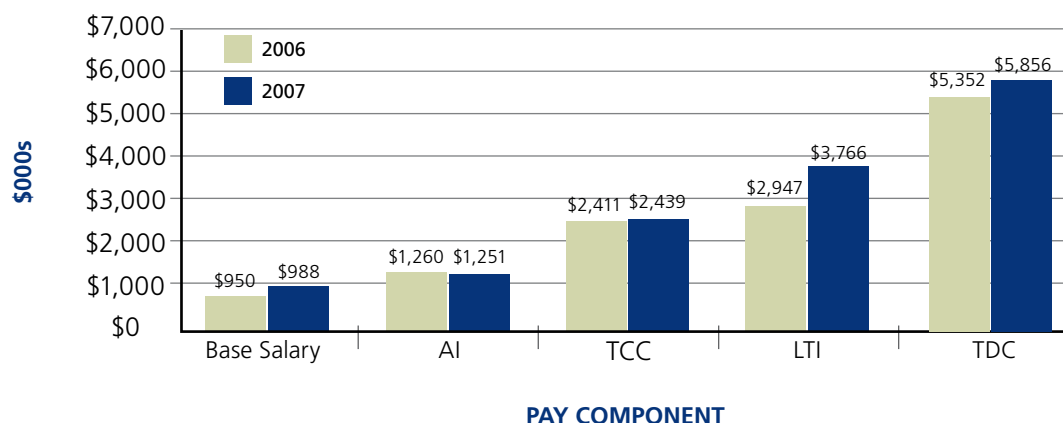
- As a heavily regulated industry, utilities must accommodate share price considerations to the allowable rates charged to customers, while maintaining a strong focus on service and maintenance.
- As a result, utilities historically have been less focused than other sectors on driving stock price appreciation, relying on Long-Term Cash Plans and grants of full-value shares – rather than stock options – as their primary vehicle to reward top executives.
 - An added advantage: under FAS 123R, LTIPs now are accounted for similarly to other long-term incentive vehicles.

Chief Executive Officer Direct Pay

Total Direct Compensation (TDC)

- Total Direct Compensation (TDC) consists of current base salary plus annual incentives earned in 2007 plus present value of long-term incentives granted in 2007.
- Median 2007 CEO TDC was \$5,856,000, up about 10% from 2006.
 - Growth was generally driven by long-term incentive grants, with levels for other pay components mostly flat.
 - Three of 45 companies reported total direct compensation in excess of \$10 million, compared to six such companies a year earlier.
- TDC increased to \$8,242,000 at the 75th percentile.
- Overall, TDC ranged from approximately \$2 million to \$17 million, with long-term incentives accounting for the biggest differences in pay levels.

Median: 2006/2007 Utility Industry CEO Pay Component



Base Salaries

- Median salary was \$988,000, up slightly from \$950,000 in 2006.
- 75th percentile salary was almost unchanged at \$1,075,000, compared to \$1,041,000 a year earlier.

Annual Incentive

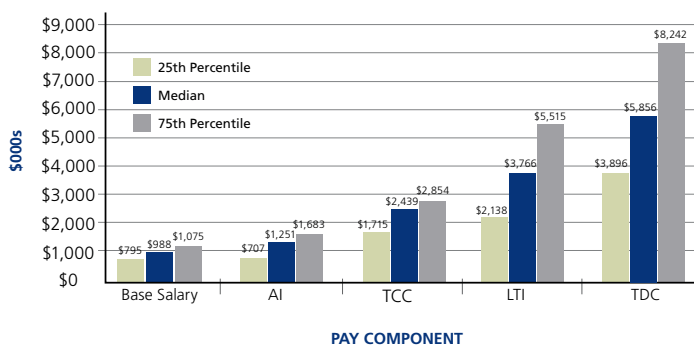
Under expanded SEC disclosure requirements, short- and long-term cash incentives paid for specific, pre-defined goals under a formal incentive plan are now reported as “non-equity incentive plans” or NEIPs, while discretionary and subjective cash bonuses are reported separately. This study combines NEIPs and discretionary bonuses into a “total bonus.”

- Median total bonus payout was \$1,251,000, about the same as 2006.
- Top bonus payout was \$5.5 million.
- Median bonus target was \$987,000.

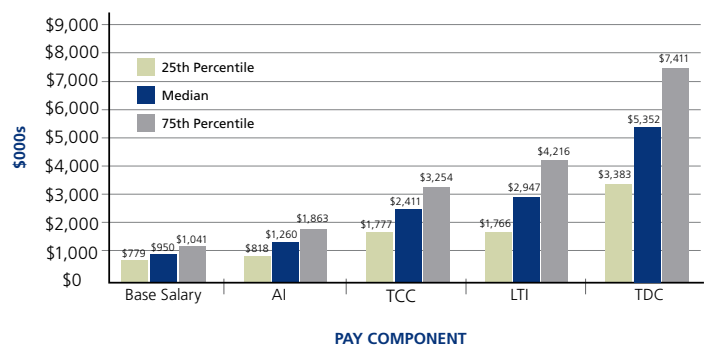
Total Cash Compensation (base salary plus annual incentives)

- Total cash compensation was flat compared to a year earlier at \$2,439,000 at median.
- A decrease in annual incentive grants over \$3 million put 75th percentile total cash at \$2,854,000, down from \$3,254,000 in 2006.

2007 Utility Industry CEO Pay Component by Quartile



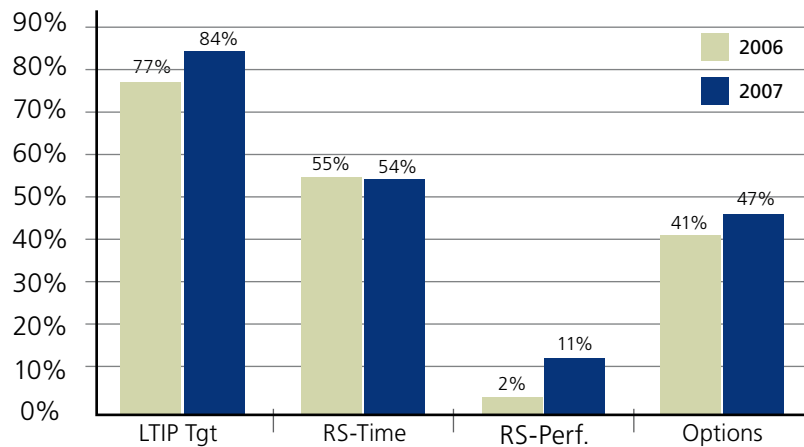
2006 Utility Industry CEO Pay Component by Quartile



Long-term Incentives

- Fewer than half the utilities studied made stock option grants to their CEOs, although prevalence was up 5%.
- Consistent with most industries, long-term incentive programs had the most impact on CEO pay levels.
 - Median long-term incentive was \$3,766,000, up significantly from \$2,947,000 in 2006.
 - There was one \$10 million grant in 2007, compared to four companies that made grants of \$10 million or more a year earlier.
- There was a sharp increase in the use of performance-based restricted stock, alongside a slight decline in the use of time-based restricted stock.

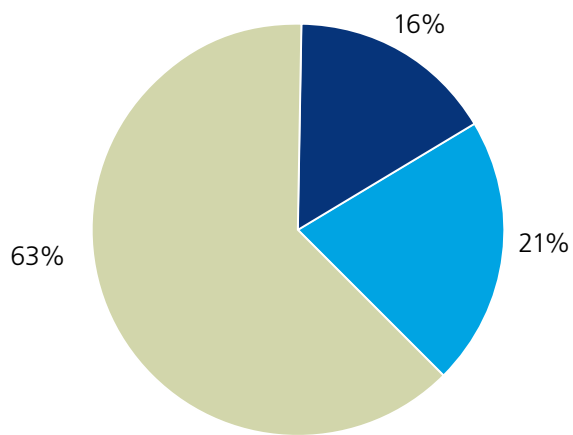
CEO: LTI Vehicles Prevalence



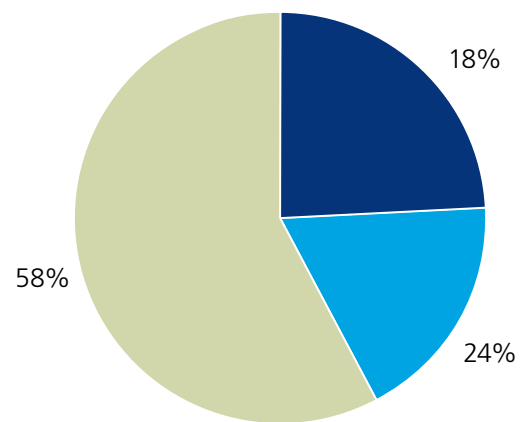
Pay Mix

As a percentage of total pay, long-term incentives grew over a year earlier, continuing to represent the biggest share of CEO pay.

Pay Mix - CEO 2007



Pay Mix - CEO 2006



■ Base Salary ■ AI ■ LTI

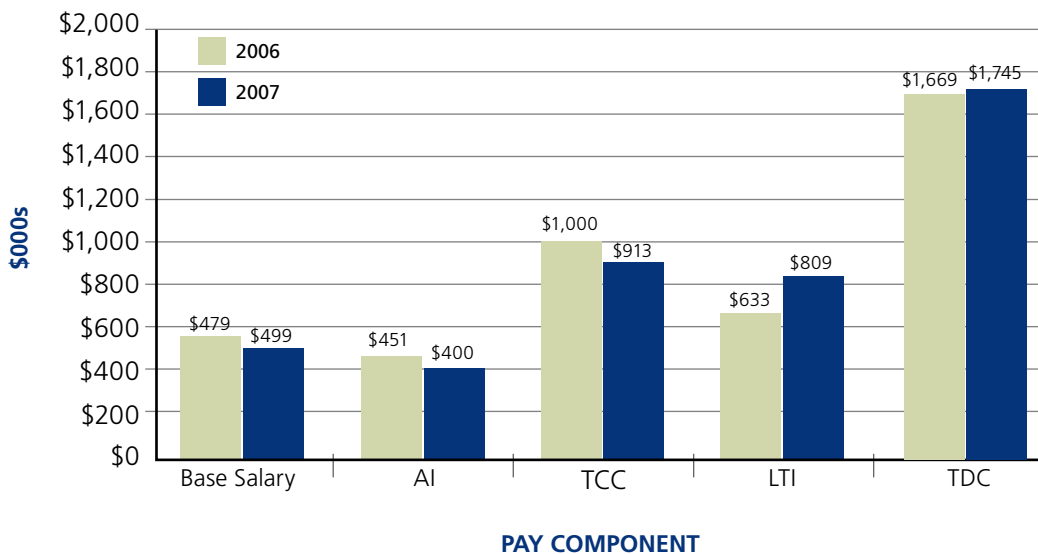
Utility CFO Pay: Key Findings

Chief Financial Officer Direct Pay

Total Direct Compensation (TDC)

- Total Direct Compensation (TDC) consists of current base salary + annual incentive earned in 2007 + present value of long-term incentives granted in 2007.
- Median CFO total pay for 2007 was \$1,745,000, up about 5% from a year earlier.
 - Growth was driven by long-term incentive grants.
 - Median annual incentives declined.
- TDC at the 75th percentile was \$2,481,000.
- Overall, TDC ranged from approximately \$800,000 to \$5.7 million.
 - The majority of TDC ranges between \$1 million to \$3.5 million.

Median: 2006/2007 Utility Industry CFO Pay Component



Base Salaries

- Median 2007 CFO salary increased 4% to \$499,000.
- 75th percentile salary was \$561,000, up slightly from \$541,000 in 2006.
- Average salary was \$938,000, indicating relatively minimal variations in pay levels among companies

Annual Incentives

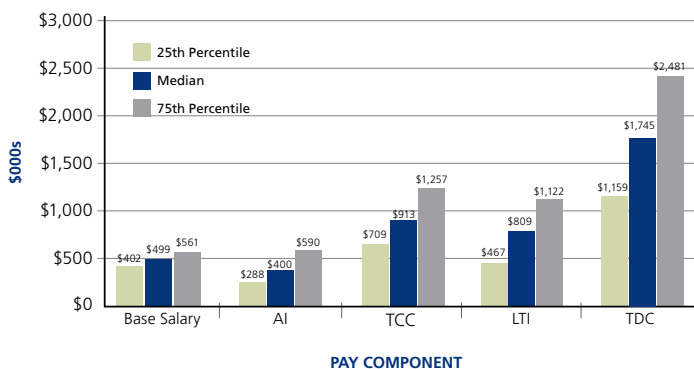
Under expanded SEC disclosure requirements, short- and long-term cash incentives paid for specific, pre-defined goals under a formal incentive plan are now reported as “non-equity incentive plans” or NEIPs, while discretionary and subjective cash bonuses are reported separately. This study combines NEIPs and discretionary bonuses into a “total bonus.”

- Median total bonus payout was \$400,000, down 11% from 2006.
- Median bonus target was \$309,000.

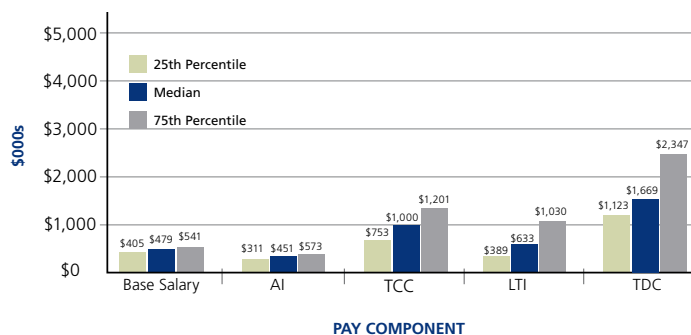
Total Cash Compensation (base salary plus annual incentives)

- 2007 median total cash compensation decreased 9% to \$913,000.
- Total cash at the 75th percentile jumped to \$1,257,000.

2007 Utility Industry CFO Pay Component by Quartile



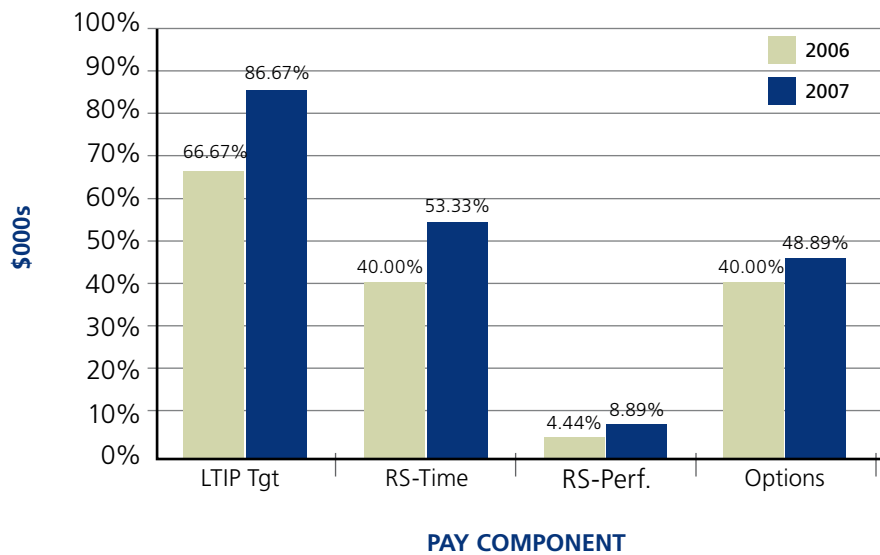
2006 Utility Industry CEO Pay Component by Quartile



Long-Term Incentives

- Consistent with most industries, long-term incentive programs had the greatest impact on total pay for utility CFOs.
- Median long-term incentive grants in 2007 were \$809,000, up sharply from \$633,000 in 2006.
- The use of all incentive vehicles increased in 2007.

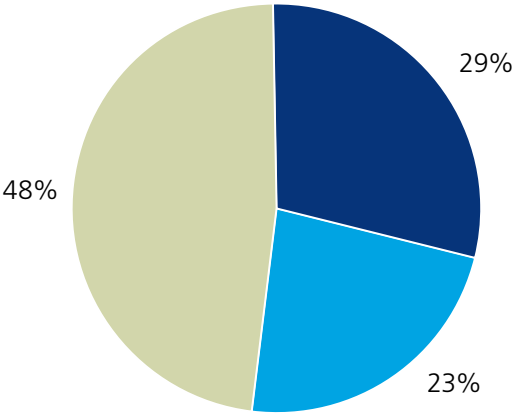
CFO: LTI Vehicles Prevalence



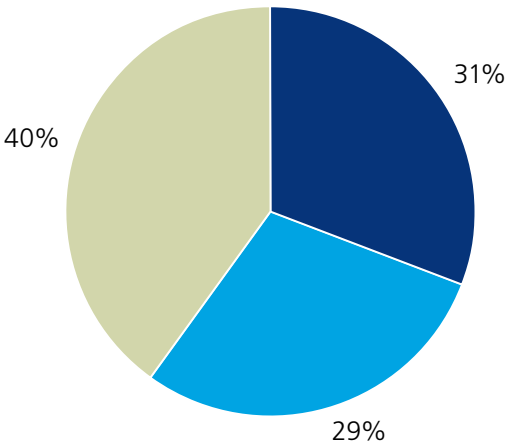
Pay Mix

As a percentage of total pay, long-term incentives increased over the previous year, accounting for about half of total pay for utility CFOs.

Pay Mix - CFO 2007



Pay Mix - CFO 2006



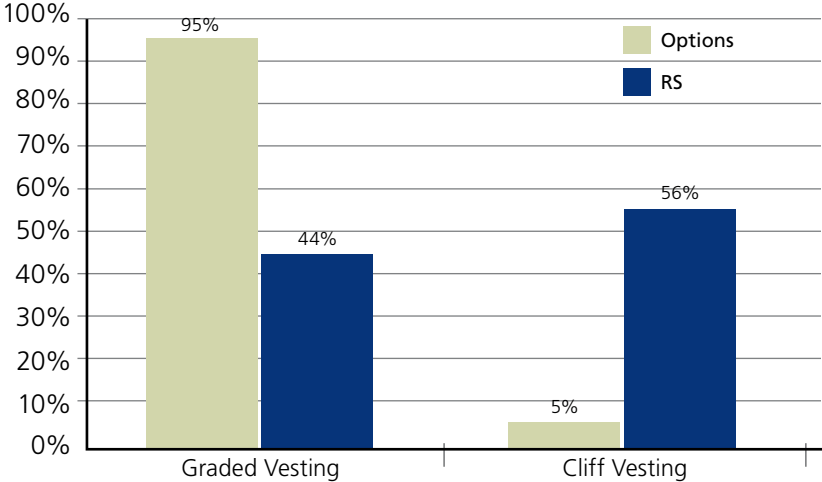
■ Base Salary ■ AI ■ LTI

Vesting, Performance Metrics and Equity Use – Key Findings

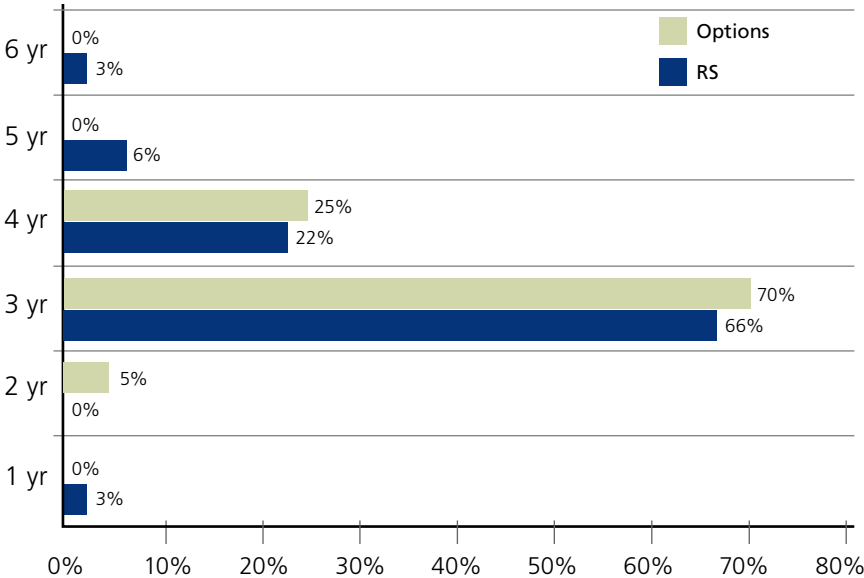
Vesting Schedules

- Most stock option grants among utilities featured graded vesting (in which shares/units vest in tranches over a specified period).
- For their restricted stock grants, utilities slightly favor the use of cliff vesting (where shares/units vest at the end of a specified period).
- Both stock options and restricted stock grants generally have three-year vesting periods.
 - Stock option vesting ranged from two to four years.
 - Restricted stock vesting varied from one to six years.

CFO: LTI Vehicles Prevalence

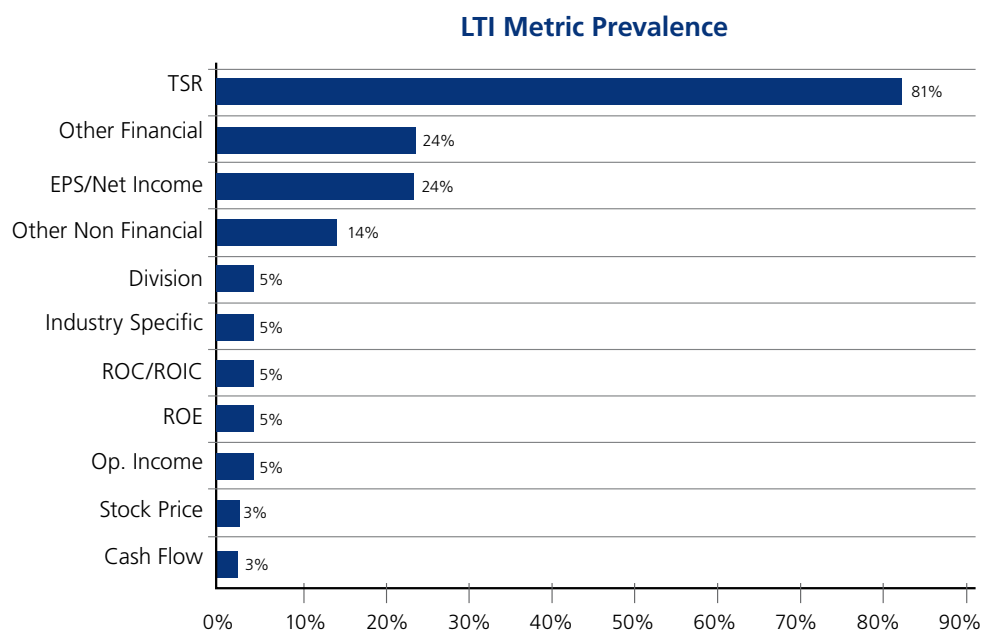
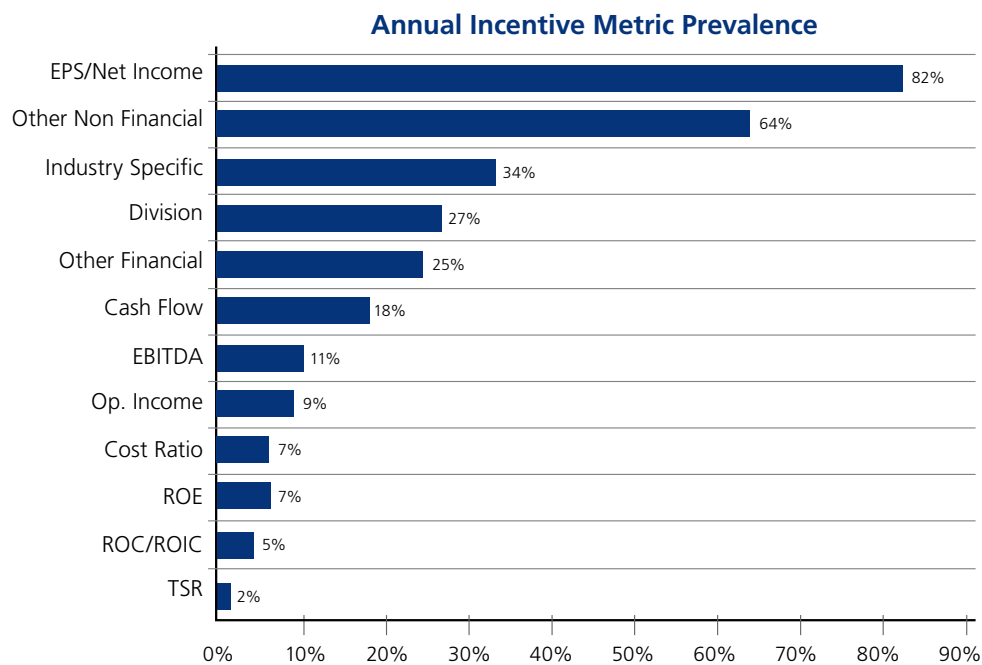


Vesting Period Prevalence



Performance Metrics

- Earnings (EPS and Net Income) is the most commonly used metric in utility incentive performance plans.
- Total Shareholder Return (TSR) is the predominant performance metric for long-term incentive programs.



Overhang and Run Rates

- Run rate equals: Stock Options (includes options assumed upon acquisition + (Restricted Stock/Units * ISS Conversion Factor)) / diluted weighted average shares outstanding (“WASO”). Does not take into account cancelled options.
- Total Overhang equals (Options Outstanding + Restricted Stock/Units Outstanding + Shares Available for Grant)/ diluted WASO.
- Median run rates fell slightly from 2006, but are up overall from two years ago.
 - In contrast, run rates among the Top 200 public firms have declined steadily since 2002. (PM&P’s study of equity use at the Top 200 U.S. companies is available at <http://pearlmeier.com/knowledgecenter/research/>)
- Median overhang is up from a year earlier, although levels are declining overall.
 - Utility industry overhang generally remains at about half the level of Top 200 companies.

Run Rate							
	Run Rate, FY-1	Run Rate, FY-2	Run Rate, FY-3	3-Year Average Run Rate	Change in Run Rate, FY-1 to FY-2	Change in Run Rate, FY-3 to FY-3	Change in Run Rate, FY-1 to FY-3
Maximum	2.98%	2.26%	2.98%	3.24%	1.45%	1.65%	1.79%
75th Percentile	1.28%	1.27%	1.28%	1.19%	0.22%	0.54%	0.29%
MEDIAN	0.82%	0.89%	0.82%	0.59%	-0.04%	-0.06%	0.08%
25th Percentile	0.42%	0.49%	0.42%	0.42%	-0.18%	-0.11%	-0.20%
Minimum	0.00%	0.00%	0.00%	0.00%	1.37%	-2.11%	-0.67%

Total Overhang							
	Overhang, FY-1	Overhang, FY-2	Overhang, FY-3	3-Year Average Overhang	Change in Overhang, FY-1 to FY-2	Change in Overhang, FY-3 to FY-3	Change in Overhang, FY-1 to FY-3
Maximum	12.89%	13.14%	15.48%	13.29%	4.51%	3.53%	3.88%
75th Percentile	8.45%	8.24%	7.94%	7.79%	1.56%	-0.09%	1.36%
MEDIAN	6.06%	5.71%	6.67%	6.14%	-0.29%	-0.49%	-0.59%
25th Percentile	4.69%	4.06%	4.51%	4.16%	-0.92%	-0.97%	-1.35%
Minimum	1.29%	0.54%	0.51%	1.42%	-1.98%	-4.38%	-4.45%

Study Implications

Looking ahead, utilities will be grappling with a range of major issues related to executive compensation:

- How to incentivize executives in a volatile market, while distinguishing real executive performance from market factors.
- With broad-based defined benefit pensions still commonplace among utilities, programs for executives that deliver significant and enhanced value are vulnerable to attack as “stealth pay.”
- Typically long-tenured, utility executives are likely to face questions about the need and level of severance programs, which are now subject to expanded proxy disclosure.
- Nevertheless, utility CEO pay will retain distinctive features as long as the industry continues to be highly regulated.

Appendix

AGI Resources Inc
Allegheny Energy, Inc
Alliant Energy Corp
Ameren Corp
American Electric Power Co Inc
Atmos Energy Corp
CMS Energy Corp
Consolidated Edison Inc
Constellation Energy Group Inc
Dominion Resources Inc
DTE Energy Co
Duke Energy Corp
Edison International
El Paso Corp/De
Energy East Corp
Energy Corp
Exelon Corp
Firstenergy Corp
FPL Group Inc
Great Plains Energy Inc
Integrys Energy Group, Inc.
MDU Resources Group Inc
Mirant Corp
Nicor Inc
Nisource Inc
Northeast Utilities
NRG Energy, Inc.

Nstar
Oge Energy Corp
Oneok Inc
Pepco Holdings Inc
PG&E Corp
Pinnacle West Capital Corp
PPL Corp
Progress Energy Inc
Public Service Enterprise Group Inc
Puget Energy Inc
Reliant Energy Inc
Scana Corp
Sempra Energy
Sierra Pacific Resources
Southern Co
Teco Energy Inc
Wisconsin Energy Corp
Xcel Energy Inc



About Pearl Meyer & Partners

As leading independent compensation consultants, Pearl Meyer & Partners' mission is twofold: to serve Board Compensation Committees as independent outside counsel in the discharge of their responsibilities and to support management through the development of executive and employee compensation programs tailored to the business needs of each client.

Consulting services include design, development, turnkey implementation and communication of:

- Board compensation programs,
- Salary programs,
- Annual incentives and sales compensation,
- Value creation and performance measurement systems,
- Long term performance incentives,
- Restricted stock, performance shares and other forms of full-value equity grants,
- Stock options, executive stock purchase and stock-for-cash arrangements,
- Business unit incentives and equity participation,
- Special co-investment and carried interest plans,
- Deferred compensation and capital accumulation plans,
- Supplementary retirement income and other executive benefits,
- Special situation incentives for IPOs, spin-offs, LBOs, LLCs, partnerships, M&As, new ventures, turn-arounds and bankruptcies,
- Change-in-control and severance programs,
- Negotiation and drafting of senior executive employment contracts and severance agreements,
- Corporate governance with respect to executive and Board compensation,
- Expert witness, opinions and litigation support,
- Organization development, and
- Marketplace compensation surveys

Clients range from Fortune 1,000 industrial and service corporations in the U.S. and globally, to smaller, not-for-profit and private organizations.

Headquartered in New York, Pearl Meyer & Partners maintains offices in Atlanta, Boston, Charlotte, Chicago, Houston and Los Angeles.

Questions regarding the data in this report may be directed to Peter Lupo in our New York Office. For other information and guidance on compensation, or to learn more about Pearl Meyer & Partners' services, please feel free to contact any of our offices listed on the next page or visit our website at www.pearlmeyer.com.



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