

# MERCER

Human Resource Consulting

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## **2006 Compensation Study Summary** **Electric Reliability Council of Texas (ERCOT)**

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Marsh & McLennan Companies



## **Background**

- ERCOT asked Mercer to conduct an update to the 2005 compensation study of ERCOT's compensation practices and propose a new base pay structure
- The objective of the project was to address several issues with the current framework
  - Pay structure was outdated and ranges for individual jobs were not aligned with market practices
  - Structure did not reflect ERCOT's selected market position (50th percentile total cash compensation)
  - More job titles than unique jobs
  - Jobs classified in the wrong pay grades
  - Structure did not adequately accommodate reporting relationships





## **Project Overview**

- Key project phases:
  - Conducted custom survey of certain industry-specific jobs
  - Updated 2005 market study to reflect 2006 market practices and new information regarding job content
  - Benchmarked additional jobs using 2006 market data
  - Developed a new base pay structure and corresponding pay administration guidelines



## **Process and Methodology**

To complete the benchmarking process, Mercer:

- Reviewed ERCOT's current pay practices
- Reviewed updated job documentation to understand job content
- Performed a custom survey of 10 different utilities and ISOs
- Obtained data from approximately 25 published survey sources as well as 3 custom surveys
- Adjusted data as appropriate to reflect differences in job scope, responsibilities, reporting levels, and skill requirements
- Developed 25th, 50th, and 75th percentile market composite statistics for base pay and total cash compensation for 170 ERCOT benchmark jobs, representing 358 employees (62% of ERCOT's workforce)







## **Process and Methodology (continued)**

To complete the competitive assessment, Mercer:

- Assessed ERCOT's base pay compensation relative to the 50th percentile (median) total cash compensation practices of the market
- Prepared a summary of findings and recommendations



## **Process and Methodology (continued)**

To develop the new base pay structure, Mercer:

- Used the 50th percentile total cash compensation market data (as of 12/1/06) to develop pay range targets in a new structure comprised of 17 salary grades
- Assigned benchmark jobs to the grade with market range closest to the job's market value
- Worked with ERCOT HR team to slot non-benchmark jobs into grades based on a whole-job comparison to benchmark jobs in the job family matrix
- Analyzed the costs associated with implementing the new structure
- Drafted Compensation Administration Guidelines for administering pay
- Proposed a Communication plan



## Base Pay Analysis

Our assessment of ERCOT's base pay (as of 12/1/06) for the benchmark sample relative to aggregate market practices indicated the following:

- On average, base pay for the benchmark sample of jobs is approximately 3.2% below the market median for TCC
- Average base pay for jobs in Administrative Support, Compliance, Legal, and Market Services is more than 10% below the market median
- Average base pay for jobs in Internal Audit and Corporate Security, Facility and Safety is more than 10% above the market median
- Individual pay levels are somewhat dispersed
  - Individual market variances range from approximately 33% below to approximately 35% above the market median
- 22% of the benchmark employees fall outside a typical market competitive range (+/-15%)



## **Base Pay Analysis (continued)**

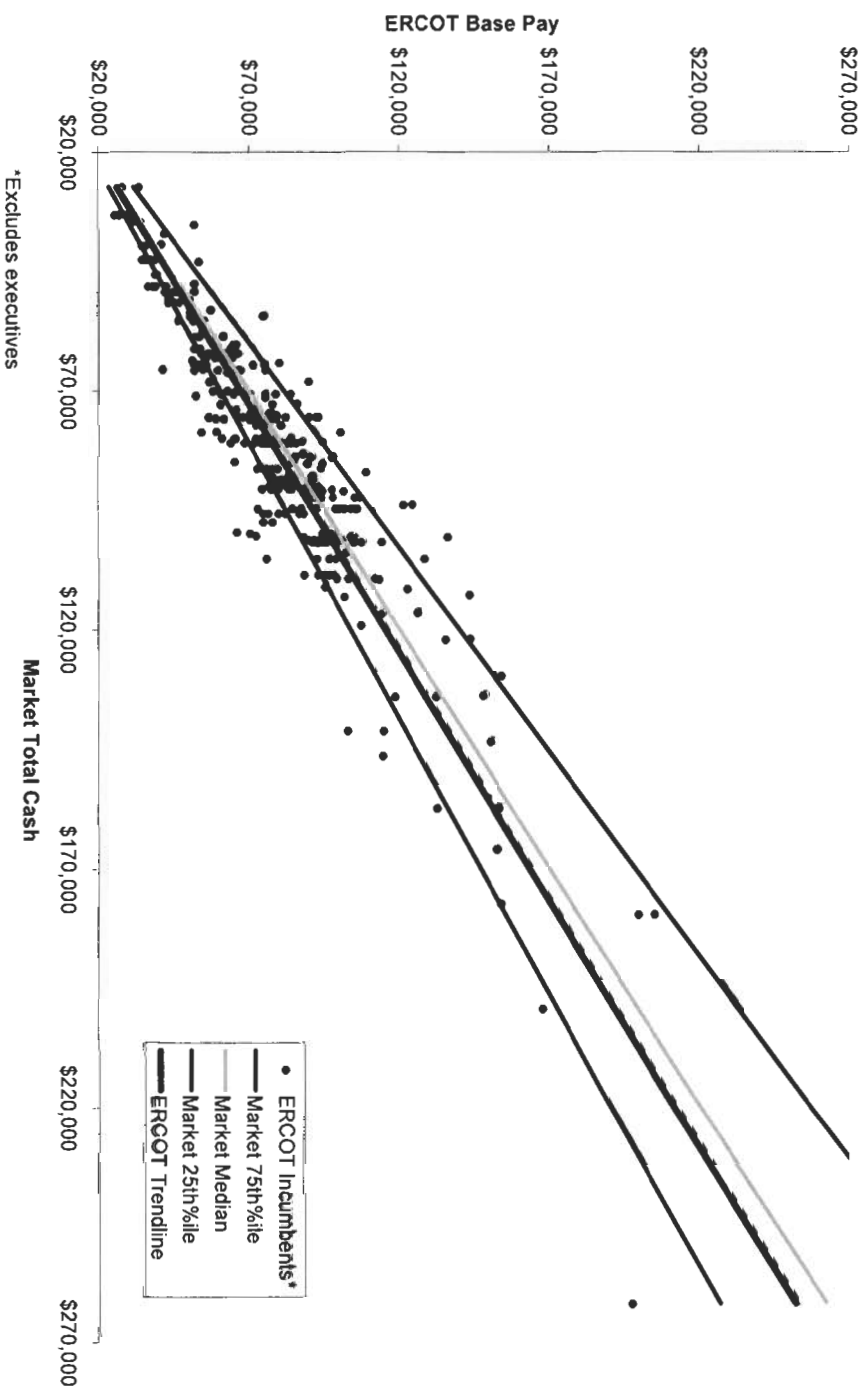
- Based upon the benchmark sample, it appears that ERCOT's competitive position has not changed substantially since the 2005 study and may even be slightly better
- Possible reasons for this might include:
  - New hires have joined ERCOT at higher base salaries which are more market competitive
  - Internal movement has resulted in increased base salaries for some incumbents since last study





# Base Pay Analysis (continued)

Electric Reliability Council of Texas  
Base Pay Analysis



\*Excludes executives  
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# Proposed Salary Structure

Grade Q				\$157.2		\$262.0
Grade P			\$133.2			\$222.0
Grade O			\$112.9		\$188.1	
Grade N		\$95.6		\$159.4		
Grade M		\$83.2		\$138.6		
Grade L	\$77.1		\$115.7			
Grade K	\$67.0		\$100.6			
Grade J	\$58.3		\$87.5			
Grade I	\$50.7		\$76.1			
Grade H	\$45.3		\$67.9			
Grade G	\$40.4		\$60.6			
Grade F	\$37.0		\$53.2			
Grade E	\$33.0		\$47.6			
Grade D	\$29.5		\$42.5			
Grade C	\$26.8		\$38.6			
Grade B	\$24.4		\$35.0			
Grade A	\$22.1		\$31.9			

## Structure Elements

- Traditional, market-based grade structure
- 17 Grades
- 10-18% Midpoint Progressions
- 44-67% Range Widths

## Advantages

- Smaller midpoint progressions at lower grades enable ranges to be better aligned with market
- Larger range widths at the higher grades provide greater flexibility in pay in efforts to attract and retain key talent



## Structure Cost Analysis

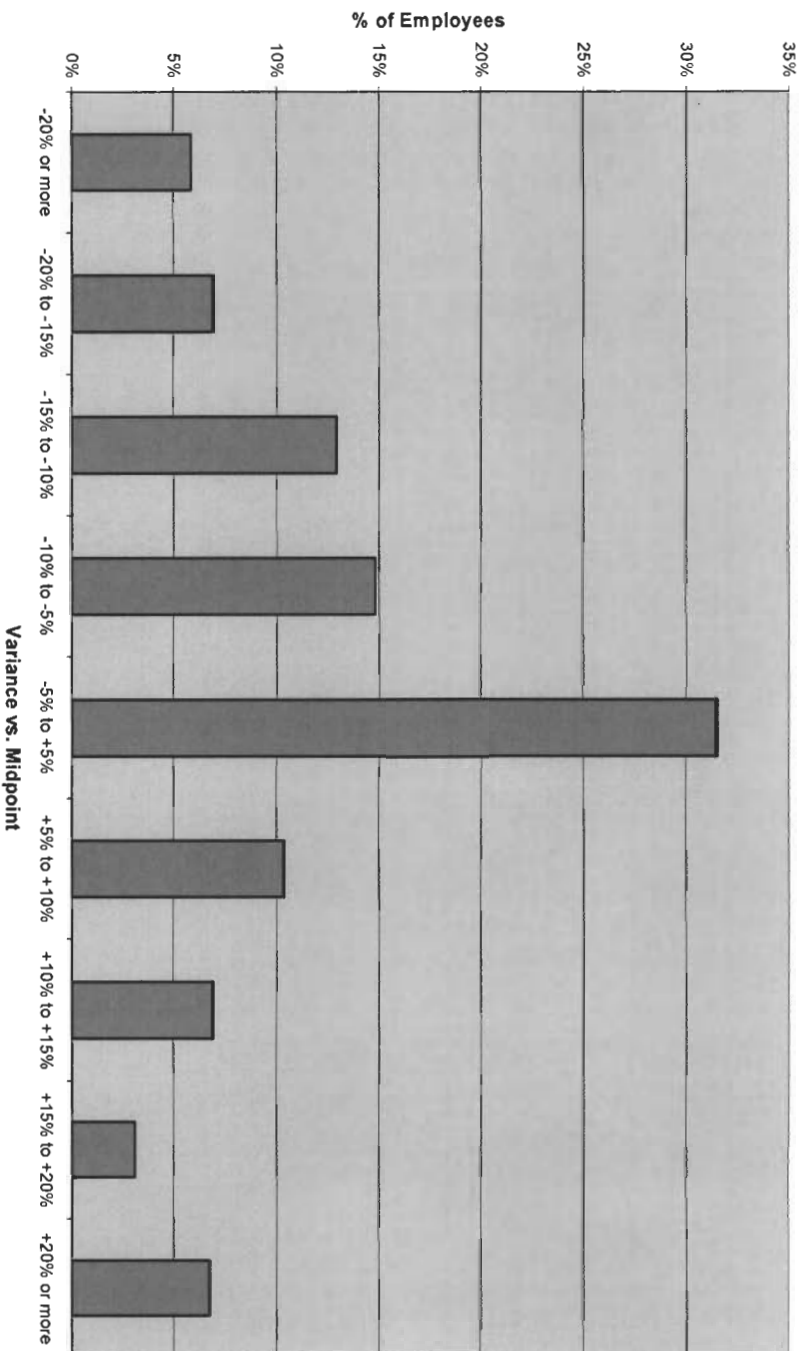
Below are highlighted statistics regarding the costs associated with implementing the proposed salary structure:

- The aggregate compa-ratio (current base salary divided by pay range midpoint) for all ERCOT employees (as of 12/1/06) is 99%
  - Cost of \$473,495 to achieve an aggregate compa-ratio of 100%
- As of 12/1/06, 32 employees have current salaries below their salary grade minimum
  - Cost of \$112,431 to bring these employees up to minimum
- As of 12/1/06, 34 employees have current salaries above their salary grade maximum
  - This represents an ongoing annual cost of \$202,003



# Structure Cost Analysis (continued)

Variance from Grade Midpoint



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## Structure Implementation

To ensure a successful transition to the new salary structure, Mercer recommends that ERCOT:

- Confirm desired “effective date” of structure as 1/1/07 [confirmed]
- Set up new jobs and salary grades in ERCOT’s HRIS [complete]
- Ensure all employees are appropriately classified into jobs [complete]
- Implement a Communication strategy for both managers and employees  
*[in progress – Communication is being performed in conjunction with the annual merit review process]*
- Budget approximately \$500,000 (or 1% of base pay) for base pay adjustments, including \$112,431 to bring all employees up to range minimum [complete – 1% of payroll, separate from the normal merit budget, has been set aside for adjustments]



## **Recommendations**

To the extent ERCOT desires to keep base pay levels aligned with the median of the market on an on-going basis, Mercer recommends the following:

- Update market data at least every three years
- Review grade assignments annually to ensure base pay ranges for all jobs are aligned with market practices
- Manage individual pay levels consistently within market-based ranges
- Recognize multiple career levels where consistent with market distinctions

