



# New Zealand Windfarms



## CHAIR AND DIRECTOR FEE REPORT

July 2022

## Introduction

Board Dynamics has been engaged to provide a report on the current Director remuneration at New Zealand Windfarms (NZ Windfarms) and make recommended changes (if any) in the current fees based on current market data since your last review in 2019 (where the current fees were set at the AGM).

In benchmarking the NZ Windfarms board remuneration, we have used the **Electricity industry** as the sector of reference in New Zealand. We have also looked at the Engineering industry (peer group) in order to provide a balanced report as the organisation is embarking on a major engineering project.

NZ Windfarms is a long-term specialist wind farm owner and operator, with its revenue coming from the sale of sustainably generated electricity from its Te Rere Hau wind farm. The Te Rere Hau wind farm is located on North Range Road in the Tararua Ranges outside of Palmerston North. The wind farm has 92 turbines with a nameplate capacity of 46MW producing sufficient electricity to power approximately 19,000 households.

NZ Windfarms Limited (NWF) is a **publicly listed company** on the New Zealand Stock Exchange (NZX).

NEW ZEALAND WINDFARMS board remuneration has been benchmarked against similar sized organisations in New Zealand, based on Market cap (approx. \$51.5m), Industry and NZ listed companies of similar size.

We also took into consideration **the board's increased workload over the next year with a considerable project workload** (committee/board). The NZ Windfarms Board and Executive Team have a focus on repowering the Windfarm (project).

## Market Overview

There is a strong correlation between company size and Directors' fees. The larger the company, the larger the Director fees. There is also a significant premium for non-executive Director (NED) fees within listed companies when compared to fees within private companies.

Overall, policy positioning of Directors' fees appears to be relatively conservative. **Sixty percent (60%) position fees at the median of the market** and only 12% use the 75th percentile as their position of comparison.

**Benchmarking fees against a specific industry or peer group was the most common comparator** approach (48%), followed by a comparison to the general private or listed company sector (20%).

As of May 2022, the average board remuneration in the electricity industry in

New Zealand for a **Chair is \$145,000** and for a **Director is \$83,000**. The range depends on breakdown – Market cap, listed company or industry.

Non-executive Chair and Director fees have increased by 5.7% in the past 12 months (listed organisations) and due to the pandemic, there has been a strong market movement for example in the transport/freight sector where fees increased by 10.3%, after three years of relatively stable median increases.

This year Boards are forecasting Chair/Director fee increases (range depending on industry and market cap/organisation size) at around (median) 5.8% to over 10% (due to inflationary pressures, retention of qualified Directors and in some cases Director fees were cut at the beginning of the pandemic in 2020 with no increase in 2021 in sectors like hospitality/tourism).

## **NEW ZEALAND WINDFARMS Current Board Remuneration**

The NZ Windfarms Board of Directors is made up of five Directors.

The current remuneration fees per annum are set as follows:

<b>Board</b>	<b>ARC</b>	<b>Rem &amp; Nom</b>	<b>Health &amp; Safety</b>	<b>Repowering</b>	<b>Total Director Fees pa</b>
<b>Chair – \$150K</b>		Member	Member		<b>\$150K</b>
Member – \$65K	<b>Chair + \$6K</b>	Member	Member		<b>\$71K</b>
Member – \$65K	Member + \$3K	Member	<b>Chair</b>		<b>\$68K</b>
Member – \$65K	Member + \$3K	<b>Chair</b>	Member		<b>\$68K</b>
Member – \$65K	Member + \$3K	Member	Member	<b>Chair</b>	<b>\$68K</b>
					<b>\$425K</b>

Notes: Current Director fee pool was set at the AGM in 2019 at \$400k when there were four Directors. Philip Cory-Wright is the fifth Director recently appointed. Before that total Director fees for the four Directors were set at \$357K pa.

We have also been advised that the “Repowering committee has just been stood up. This will be very busy over the next 12 months. Probably checking in every one to two weeks as we look to re-consent our wind farm.”

## Summary

Our recommendation is based on several factors including Industry, Market cap and being a listed NZX company of the market data referenced in this report for both Chair and Director fees.

NZ Windfarms is an organisation where the board operates in an industry most like electricity, with a market cap over \$50m-\$100m (range) and being a listed company on the NZX.

We have taken into consideration the complexity of the industry, the multi-year strategic plan (recommissioning the windfarm) and the technical skills required of each Director or Chair.

To summarise, relevant Chair and Director fee reference data is highlighted in the tables below:

### 1. Average relevant Chair Fees and Workload 2021-22

	Lower quartile	Median	Upper Quartile	Annual Average Fee*	Annual Average Hours
Company on NZX	\$91,294	\$147,250	\$180,000	\$145,271	307
Industry – Electricity	\$70,500	\$108,000	\$180,000	\$125,725	252
Market cap (50.1-100m)	\$70,000	\$117,695	\$131,250	\$100,000	293
<b>AVERAGE</b>				<b>\$123,665</b>	<b>24 Hrs per Month</b>

\*Median Quartile value used as representative in the case of NZ Windfarms

### 2. Average relevant Director Fees and Workload 2021-22

\*Median Quartile value used as representative in the case of NZ Windfarms

	Lower quartile	Median	Upper Quartile	Annual Average Fee*	Annual Average Hours
Company on NZX	\$60,000	\$85,313	\$98,000	\$83,596	210
Industry – Electricity	\$44,500	\$64,500	\$98,000	\$73,721	213
Market cap (50.1-100m)	\$45,000	\$65,750	\$80,000	\$62,933	296
<b>AVERAGE</b>				<b>\$73,417</b>	<b>20 Hrs per Month</b>

## Recommended NEW ZEALAND WINDFARMS Chair and Director Fee Increase:

Accordingly, we suggest the current Chair and Director fees at NZ Windfarms are below industry average if we understand the normal workload to be in the range suggested of 24 hours per month for a Chair and 20 hours per month for a Director. **The current workload is much higher than average due to the major repowering project over the next 12 months+.**

The current pool of future Directors as part of succession planning is limited in New Zealand with the level of experience required as NZ Windfarms Directors. In addition, the greater risk that Directors take in a regulated environment and high workload also has an impact on market rates. In order to attract and retain qualified effective Directors, NZ Windfarms wish to align with the competitive industry sector and NZX listed company remuneration (comparator).

We would initially recommend the following fee increases:

Board	ARC	Rem & Nom	Health & Safety	Repowering	Total Director Fees pa	Recommendation Total Director fees pa
Chair – \$150K		Member	Member		\$150K	\$160K
Member – \$65K	Chair + \$6K	Member	Member		\$71K	\$80k (70k+10K)
Member – \$65K	Member + \$3K	Member	Chair		\$68K	\$75K (70K+5k)
Member – \$65K	Member + \$3K	Chair	Member		\$68K	\$75K (70K+5k)
Member – \$65K	Member + \$3K	Member	Member	Chair	\$68K	\$80K (70K+10k)
					\$425K	\$470k

These fee increases are the represented average fee increases for Industry, listed company and market cap. We have excluded revenue and headcount from our analysis as this data does not take into consideration the complexity and future scale of your organisation. We also factored in the current and future director workload over the next 12 months in our recommendation.

We also note that the last Director fee review was in 2019 (AGM) and as a result, the fee recommendation in this report is in line with current market data (2022).

This fee increase also recognises the increasing industry sector knowledge requirements for an NZ Windfarms Director role.

Additional factors include the major project to reawaken the windfarm, the increased risks to manage as a result, the greater workload and increased demand on the Directors' time and knowledge/experience.

## Conclusion

While this recommendation may not precisely reflect the standard market 2 X 1 ratio between Chair and Director fees, we believe it is more important to follow actual market practice than simply to apply a ratio.

In our view, the recommended ranges represent appropriate and competitive levels balancing market rates, size of organisation and Director/Chair.

Finally, this document represents the objective recommendation of Board Dynamics regarding board fees at NZ Windfarms. However, any board fee discussion involves a variety of factors of which the information in this document is just one. We suggest using this information as a starting point in a review that should serve to further develop the relationship between the NZ Windfarms Board and Shareholders (AGM).

## Understanding data measures

<b>Lower Quartile</b>	This represents the point at which, when ranked from the lowest value to the highest value, 25 per cent of the sample is lower and 75 per cent of the sample is higher. The lower quartile is also known as the 25 <sup>th</sup> percentile.
<b>Median</b>	When data is ranked from the lowest value to the highest value, the median represents the middle point of the data. At the median, 50 per cent of the sample is lower and 50 per cent of the sample is higher. The median is also known as the 50 <sup>th</sup> percentile.
<b>Upper Quartile</b>	This represents the point at which, when ranked from the lowest value to the highest value, 75 per cent of the sample is lower and 25 per cent of the sample is higher. The upper quartile is also known as the 75 <sup>th</sup> percentile.
<b>Average</b>	Indicates the average value of remuneration or benefit in any given sample. The average is calculated by adding the numbers in a sample and then dividing by the count of the sample.

### Source Data

Our market data (Chair and Director Fees) has been sourced from several reports and databases including the EY IoD Director Fee Report Aug 2021 Survey data and our own internal Board Dynamics Director 2022 survey data (updated May 2022).

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