



MEMORANDUM

To: Exempt Southwest Gas Employees

From: Jeff Shaw and Laura Hobbs

Date: July 8, 2009

Subject: Hay – Frequently Asked Questions

As discussed last week, please find the *Frequently Asked Questions (FAQ)* document designed to address questions and concerns employees have expressed regarding the Hay Project. Hopefully this will put to rest any concerns you may have regarding this process.

Candidly, we've received more than fifty questions in the *Let's Talk* forum targeting the Hay Project. Rather than respond to each question individually, we've chosen to address all exempt employees through the FAQ document to make sure the message is consistent, and heard throughout the organization. Questions submitted to *Let's Talk* related to this process will receive a standard response: "See the Hay Project FAQ; if you have additional questions, contact Jeff Shaw or Laura Hobbs directly." This applies to future questions, as well.

With one exception, all the *Let's Talk* questions came from our Corporate office. We are therefore extending the invitation for any Corporate employees who have questions subsequent to this publication to attend a brief presentation on this subject on July 21st at 9:00 am in the Building C auditorium. There will be time for questions following the presentation. Jim Kane, President, and Laura Hobbs, Vice President of Human Resources, will attend this session; together, they intend to resolve any legitimate outstanding questions related to the Hay Project.

If you still have questions, please send an email by July 17, 2009 to Martha Buckley to request to be included in this session.

**HAY PROJECT & ESA
FREQUENTLY ASKED QUESTIONS
July 2009**

As discussed in a recent memo from Jeff Shaw, Corporate Human Resources has received a number of follow-up questions to the Hay Project and the Exempt Salary Administration (ESA) process from individuals directly, as well as through the *Let's Talk* forum. Questions have been aggregated into subject areas, and are being provided to all exempt employees. Questions directly submitted to *Let's Talk* are a part of this process to efficiently provide answers while avoiding duplication of material; those with additional questions, or those who submitted specific questions and who want specific answers can contact Jeff Shaw or Laura Hobbs directly.

ESA

Question: The ESA process was not used to determine salary adjustments this year for exempt employees; instead, there was an across the board increase rather than performance-based increases based on management recommendations. Is this an exception? Will the ESA process be changing for future years?

Answer: The 2009 ESA process was out of the ordinary, due in large part to the economic downturn. Candidly, senior management grappled with the best way possible to show appreciation to its workforce for the dedication Southwesterners continue to exhibit, yet do so with a limited budget in the midst of an economic crisis with financial ramifications on our business. We chose an across-the-board 1.5% increase, rather than forcing managers to dole out the limited funds through traditional performance-based distribution processes. We stand by that decision, and anticipate returning to our traditional ESA process in future years, assuming economic recovery occurs. We've been fortunate, enjoying consistent compensation increases year after year. Changing times remind us of the true nature and purpose of ESA increases, rather than annually feeling entitled to them.

EXEMPT VERSUS NON-EXEMPT STATUS

Question: What classifies a position as exempt vs non-exempt?

Answer: Exempt employees are paid a fixed salary, regardless of the number of hours they work. Non-exempt employees are paid overtime for working more than 8 hours in a work day or 40 hours in a week. The Hay Project and ESA apply only to exempt employees; the Non-Exempt Wage Adjustment (NEWA) was implemented in June, and was also a fixed 1.5%. The Fair Labor Standards Act (FLSA) dictates exemption status; we follow FLSA guidelines in classifying positions accordingly.

HAY PROCESS

Question: Thank you for sharing the information in the Spotlight Compensation series, it was very informative yet lacks the detail to fully understand the process. Is there additional information generated by the Hay group, which can be shared with employees?

Answer: Our Hay consultants spoke – sometimes extensively – with senior management throughout the Hay Project, and provided documentation supporting their findings. When appropriate, that information has been shared with our employees (for example, a key chart was provided in Part 2 of the Compensation 201 series related to market data). All information, provided by Hay, that’s appropriate for employee review has been released.

HIERARCHY

Question: How does internal equity work at Southwest Gas? Do the same job titles in different departments equate to the same midpoint? If so, why? If not, why not? How can I get more information about the new job hierarchy in my department and in other departments? Is there a way to see the whole job hierarchy throughout the company?

Answer: Internal equity is multi-faceted, involving job complexity assessed through the Hay job evaluation process as well as midpoint establishment through market analysis. An Analyst II in Accounting will have different job know-how, problem-solving and accountability parameters than an Analyst II in Human Resources. Likewise, the market value (or midpoint) will be different on each position, because market value is directly tied to each field.

JOB DESCRIPTION PROCESS

Question: How will the job description process work? Do employees participate? Who writes them? Does management participate? How do the PDQ's play a role? What's the timeline?

Answer: Corporate Human Resources will be working directly with department management to develop accurate job descriptions for each exempt position in the organization over the course of the next three to five years. Information provided in the PDQ process (in which employees detailed their own job functions) will be relied on as critical resource material for the process. As each functional area’s job descriptions are completed, employees will be notified through management of the completion of that process. PDQ’s were used as the informational source in the Hay Project, ensuring that the evaluation was based on current job activities (rather than outdated job descriptions).

MARKET STUDIES

Question: Regarding the market studies, please provide additional information. How recently were these studies done? Were the same market studies used for senior management compensation (including bonuses and perks)? Was it factored in that Southwest Gas is unique in terms of location and workforce?

Answer: Hay conducted market studies on our behalf over the course of the three-year Hay Project. All information was updated in early 2008 for senior management's review and assessment. This occurred prior to the impact of economic downturn, giving maximum market advantage to Southwesterners in that market values were literally at their peak. Market studies were conducted and reviewed for all exempt employees, including senior management. Information was provided to the Board of Directors, specifically related to senior management compensation.

The markets we were compared to were national and regional Utility and General markets. Positions were evaluated for Hay assessment based on information provided in the PDQ process; the know-how, problem-solving and accountability required by the position was evaluated and assessed in the market, beyond just the job title itself.

Question: Explain how midpoint adjustments occurred, and specifically how one midpoint could go down \$2,000 and another down \$6,000. Why were some changes so drastic, and what can we expect going forward?

Question: What are midpoints based on, the person or the position?
I want to see the midpoint structure of every job in the company. Why can't I?

Answer: Midpoints are tied to **positions**, rather than people, and the midpoint on a given position is derived through job evaluation and market analysis. The process of evaluating a position is focused on the nature and requirements of the job **assignment** itself, rather than on the skills, character, background or longevity of the individual in the position. Using the current midpoint as the baseline, new midpoints may be implemented based on the results of the evaluation of the **position** and how it relates to comparable market data. Market data is always subject to change and midpoints will move up and down due to market changes.

The midpoint hierarchy at Southwest Gas is confidential, and will remain so.

Question: There were a lot of changes which occurred as a result of the Hay Project. How was compensation calculated in the past? Was the system broken? What can we expect in the future?

Answer: As discussed in our Compensation 101 series in 2007 (available in the Human Resources section of Infonet under Work/Life, Spotlight, 2007), we use seven national, independent salary surveys plus a regional utility survey to make sure our pay is keeping up with the marketplace. We also consider business and economic conditions along with the survey data.

Generally speaking, the Hay Project validated our methodology in wage administration. Our system was "broken" in some areas; it is important to remember that in a compensation system with integrity, adjustments will occur upward and downward in midpoints based on market assessment. We will continue to administer exempt compensation practices at Southwest Gas using market-based analysis for setting midpoints, and utilizing the Hay methodology for job evaluation.

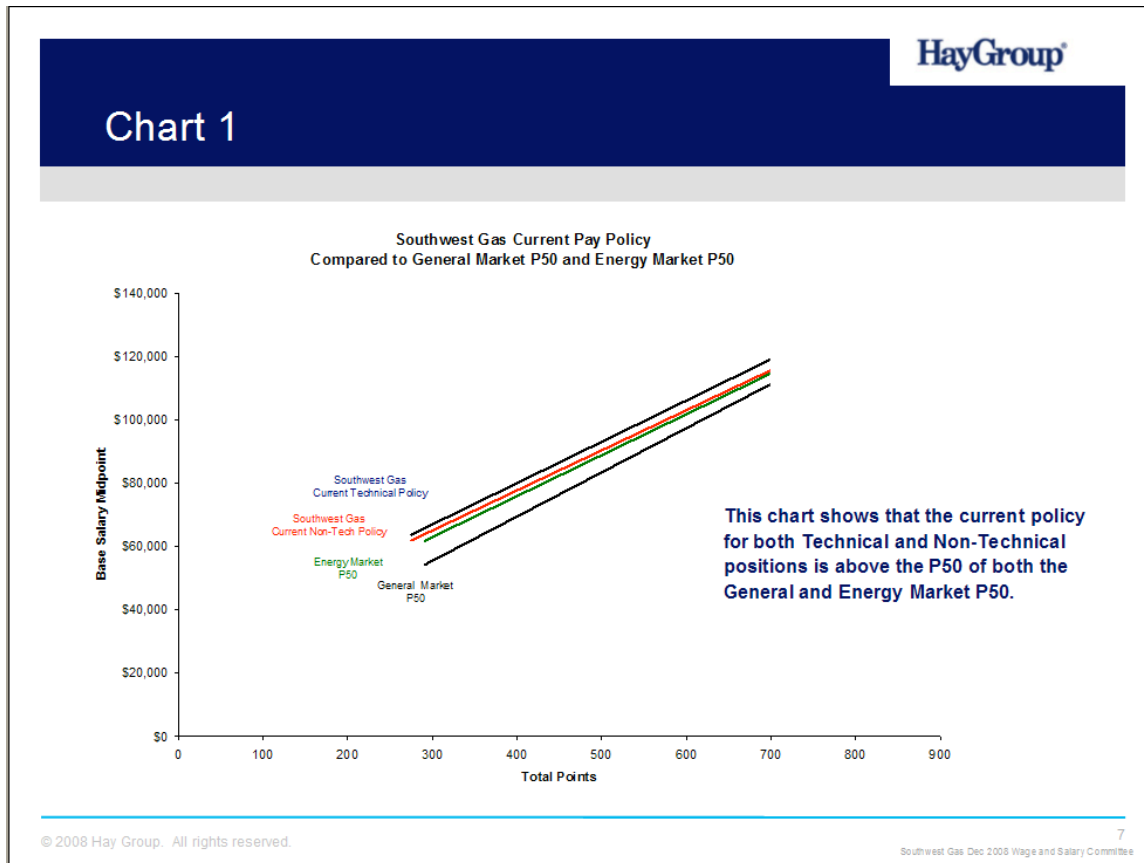
Question: I disagree with whatever influences caused my midpoint to change, and I think it's wrong. Is there any recourse?

Answer: Hay evaluated your position, rather than you; senior management reviewed those assessments, and the resulting decisions are final.

Question: While no one lost any money through this process, many lost earning potential via a reduced midpoint. Explain the fairness in that.

Answer: Every position has a market value associated with it, which is referred to as "midpoint". At Southwest Gas, employees are compensated on a spectrum between 80% and 120% of midpoint – quite a large range. A re-evaluation of a position with a resulting reduction in midpoint does, indeed, affect potential earnings in that an incumbent's compensation is limited to 120% of the new midpoint. As a reminder, **no negative wage adjustments were made as a result of the Hay Project.**

Our goal is to pay at a premium above the 50th percentile of market wages in both the Technical and Non-Technical pay lines; a review of the chart below (and more fully explained in the second edition of the Hay communications series) shows that we clearly meet that goal.



The main issues are fairness and maintaining integrity of our compensation structure overall. A job at SWG is only worth what it's worth in the market. Midpoint adjustments whether up or down, assure that our compensation structure is tied closely to the market for each position. For those whose midpoints decreased, it may be disappointing. On the contrary, for those whose midpoints increased, it is likely to be exhilarating. Maintaining credible market midpoints, which are always subject to change, is what builds fairness and integrity into the compensation process.

Your earning potential depends on your career path. You participate in the choice of your career path. If earning more money is a driver for you, consider the opportunities throughout the organization, and develop your skill set accordingly.

PAYLINES

Question: Two paylines -- technical and non-technical -- is confusing. My job is very technical, but it's not in the technical payline. Why not? What determines "technical"? Please explain.

Answer: Two separate pay lines were created to enable Southwest Gas to move positions from one to the other to remain competitive within the market. A designation to one pay line or the other, referred to as "technical" or "non-technical", does not imply that the skills required to fill the positions in one are inferior to those in the other. Being in the "technical" pay line implies that the position has limited candidates in the market, or is hard to fill. We could have called it the "hot jobs" pay line. When you boil it down, it's about supply and demand.

The use of technology and/or equipment does not automatically assign a position to the technical pay line at Southwest Gas. Furthermore, the completion of a degree or certification does not result in "technical" pay line status. Remember, it is *a position* that is placed on a pay line, rather than the skills, experience or special knowledge of the current position holder.

Over time, jobs will shift into and out of the technical pay line, based on market trends. A good example of this shift is in the field of accounting. A decade ago, accountants were readily available in the employment market. Today finding accountants is much more challenging. At Southwest Gas, Accounting is in the technical pay line.

It is important to understand that the designation of a position in either the "technical" or "non-technical" pay line can change. If the market becomes flooded with any one discipline that is currently assigned to the "technical" pay line, positions within that discipline at Southwest Gas will be moved to the "non-technical" pay line.

JOB TITLES

Question: The job retitling resulting from Hay is confusing at best, and demoralizing at worst. How can I learn what the new structure is in my department, and in other departments? Is the progression path consistent in all departments (i.e., Analyst I, Analyst II, Analyst III, Sr. Analyst, Supervisor, Administrator, Manager)?

Answer: We encourage you to talk to your manager about your department's structure, if you have questions or concerns. Your manager should be able to help you understand your own departmental structure, and advise you on questions you may have regarding the structure of other departments.

Using the "make it pure" guideline from Jeff Shaw, the hierarchy was built in a consistent manner across the organization. In other words, there will typically be levels of analysts, supervisors, administrators, and managers department to department. It is also important to remember that length of service in a given position may be an ingredient in a promotion rather than a guarantee of promotion. Job titles vary based on the business needs of the department; for example, there may be multiple levels of specialized analysts with unique titles within a specific area, while other departments may only need a single analyst classification.