

Board Staff Interrogatory #104

Ref: Ex. F3-T1-S1, page 21

Issue Number: 6.10

Issue: Is OPG responding appropriately to the findings in the Human Resources and Finance Benchmarking Reports?

Interrogatory

The discussion of HR Benchmarking (ScottMadden HR Metrics Analysis Report) notes OPG is better than the peer group median on spending per HR FTE. This benchmarking was based on 2008 information. Based on the application, it appears this is the year (2008) that the number of OPG FTEs peaked. The Navigant Study, which was a major focus of the last proceeding, identified that OPG had about 12% more staff than the benchmark in 2006 as referenced on page 27 of the Board's Decision (EB-2007-0905). Please confirm whether this is a significant contributor towards a positive result in terms of spending per HR FTE. Please provide the 2009 spending per HR FTE.

Response

The HR Expense Factor is defined as total HR Expenses (to deliver HR services) over the number of Regular HR Full-Time Equivalent ("FTE") and is reported in United States Dollars ("USD"). The 2008 spending per HR FTE was \$120,092 USD (as found on page 22 of Ex. F5-T3-S1).

The comparable HR Expense Factor for 2009 would be \$130,932 USD. The increase can be attributed to an increase in HR expenses on benchmarked services of 6.6 per cent and appreciation in the Canadian dollar relative to the United States dollar of 2.5 per cent.

Higher staff levels are not a significant contributor to a positive result in terms of spending per HR FTE. Higher staff levels in OPG would increase both the total dollar cost to deliver HR services and the number of HR FTEs (i.e., both the numerator and denominator of the HR Expense factor would change). As noted in Ex. F5-T3-S1, page 22, OPG consistently spends less per FTE to deliver services than most of the peer group companies and expenses per FTE have grown less than half the rate of peer group growth over the past five years.

Board Staff Interrogatory #105

Ref: Ex. F5-T3-S1, pages 9-10

Issue Number: 6.10

Issue: Is OPG responding appropriately to the findings in the Human Resources and Finance Benchmarking Reports?

Interrogatory

Under General Observations, it notes the following:

- *“OPG has invested in quality HR technologies but they are not all being fully utilized”*
- *“HR is not forcing line management to use the systems as designed with manager self-service”*
- *“There is no focused HR technology function in HR which impacts the ability to develop an effective HR technology strategy for the company”*
- *“The hiring process is fairly manual despite the investment in Taleo; some operating units are using automated workflow while others are using paper-based approval processes”*

- a) Does OPG plan to take any actions to address these issues?
- b) Does OPG have similar problems in other segments of the organization?
- c) How can the Board have confidence that proposed/future IT investments will be effectively utilized given Scott Madden’s observations above?
- d) Is the cost of the HR technologies in payment amounts? If yes, why should the cost be recovered in payment amounts if the technologies are not used?

Response

- a) Quality HR technologies are being used. As noted in the Scott Madden report, improvements in managing Human Resources Information System (“HRIS”) has resulted in high levels of data integrity and improved reporting capabilities for the company. In addition, there have been successes with implementing self-services tools for pension calculations and scenario analysis. Scott Madden’s observation was that there may be opportunities to use more of the available functionality. A review of the hiring process and the more effective use of the tools available is underway.
- b) OPG has taken action to leverage and optimize investments in technologies and their use. A corporate-wide review is underway to rationalize and optimize systems to ensure prudent spending, better utilization and compliance with technology strategy.

- 1 c) There are rigorous, multi-level approvals required to demonstrate the need for, and
2 investment in all technology investments. There is a centralized Information Technology
3 organization that supports and optimizes the resources across the company.
4
- 5 d) The question mischaracterizes the quote from the Scott Madden Report. As noted above,
6 the Report observes that not all HR technologies are “being fully utilized,” but the
7 question says “the technologies are not used.” As discussed in part a) of this response,
8 these costs are appropriately included in the payment amounts because the technology
9 is being used. The costs for information technology are recovered through the allocated
10 Corporate Functions costs.

Board Staff Interrogatory #106

Ref: Ex. F5-T3-S1, page 12

Issue Number: 6.10

Issue: Is OPG responding appropriately to the findings in the Human Resources and Finance Benchmarking Reports?

Interrogatory

In regard to "External Hire Rate", under "Observations" it notes "*OPG's External Hire Rate has decreased by 35.3% over the last five years and shows the lowest value in 2008. The very large utilities' median External Hire Rate has increased by 65.4% over the last five years*". The slide discusses factors such as high unionization levels at OPG. However, as discussed in the application, that has always been the case at OPG. The Nuclear Benchmarking report discusses the need for cultural change to make some of the changes needed to achieve the targets. Did Scott Madden identify that hiring more staff externally could assist in the cultural changes necessary?

Response

The Scott Madden report did not identify cultural change as an area for improvement or the need to hire more staff externally. While OPG's external hire rate of 3.3 per cent in 2008 is lower than the very large utilities median rate of 8.6 per cent, it should be noted that OPG's Total Hiring Rate (both internal and external hires) of 15 per cent in 2008 (Ex. F5-T3-S1, page 13) is the same as the median rate for the very large utilities and has increased by 28.2 per cent over the past five years.

Scott Madden identified OPG's lower separation rates (one driver of the need to hire) as an area of positive performance in driving down overall hiring costs for the company. OPG's separation rate is the lowest at 3.7 per cent compared to the very large utility median rate of 5.8 per cent for 2008.

Board Staff Interrogatory #107

Ref: Ex. F5-T3-S1, page 20

Issue Number: 6.10

Issue: Is OPG responding appropriately to the findings in the Human Resources and Finance Benchmarking Reports?

Interrogatory

On page 20, it discusses Loading Factor which is *Total Comp + Benefit Costs/Regular Labor Costs (Base Pay)*. It notes OPG's Loading Factor has increased by 1.9% over the last five years but has decreased by 2.4% since 2007 while the Median Loading Factor for the very large company size group has decreased by 0.7% over the last five years and decreased by 11.2% since 2007. This leaves OPG above the median. The recommendation is to target median peer group performance for loading factor. Does OPG plan to target the median? If so, how does OPG plan to achieve the median? If not, please explain why.

Response

OPG plans to track performance against the very large utility's five-year median peer group loading factor.

OPG's loading factor has remained fairly consistent over the past five years as the majority of employees are unionized and items such as wages, pensions and benefits can only be changed in the collective bargaining process. As noted in Ex. F4-T3-S1, section 6.2, OPG has taken steps to both monitor and control benefits and has implemented a number of changes to stabilize costs and better align benefits with those of the external market, and to contain labour costs (Ex. F4-T3-S1, section 5.5). The use of overtime is one controllable cost that continues to be closely managed. Through these actions OPG has decreased its loading factor by 2.4 per cent since 2007. Other very large companies in the sample have been able to decrease more, likely because of the differences in union bargaining strength. As a result, OPG will continue to target median performance against these comparators.

Board Staff Interrogatory #108

Ref: Ex. F5-T3-S2

Issue Number: 6.10

Issue: Is OPG responding appropriately to the findings in the Human Resources and Finance Benchmarking Reports?

Interrogatory

On page 1, OPG provides an introduction to the Hackett Group Finance Benchmark Progress Report. However, there is no discussion in regard to if and/or how OPG plans to respond to the Observations and Findings of Hackett. For example, some of those Observations and Findings include:

- Page 14: For "FTEs per OPG's Revenue after Rebates" Hackett found 237.4 (OPG) vs. 212.0 (Peer). Based on the chart, essentially all of the difference is in *Planning and Strategy* (83.9 vs 66.1).
- Page 21: For "Cost per Transaction", from 2006 to 2008 OPG increased from \$8.53 to \$10.99 vs. \$6.27 (2008) for the Peer group.
- Page 31: For "Average Number of Formal Training Hours for Finance Employees", OPG declined from 42 (2006) to 32 (2008), while the Peer group requires about half the training hours at 18 (2008).

What are OPG's plans in terms of responding to these Observations and Findings, particularly "Cost per Transaction"?

Response

The results of the mini benchmarking study are being reviewed in detail through a series of debrief sessions with the Hackett Group to determine next steps and action plans focusing on the areas where there appear to be gaps between peer performance and OPG performance. Currently, strategic and business planning, compliance management, and transaction processing are being reviewed. The mini benchmarking exercise is part of an ongoing initiative by OPG to benchmark the performance of its Finance Division and to seek improvement in both efficiency and effectiveness.

Concurrently with the Hackett review, OPG has a number of improvement initiatives underway that reinforce the Hackett-related next steps. Examples include the implementation of a management reporting tool utilizing business intelligence software which produces standardized cost reports without manual intervention, and a procure-to-pay process improvement project partnering with OPG Supply Chain targeting transaction processing. As OPG continues to review, upgrade and improve its underlying systems and related processes including the implementation of automated solutions, it is expected that OPG will see Full Time Equivalent ("FTE") reductions in these functional areas.