

ONTARIO POWER GENERATION

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June 14, 2013

Serge Imbrogno Deputy Minister Ministry of Energy Hearst Block, 4th Floor 900 Bay St. Toronto, Ontano M7A 2E1

Dear Sir:

I am writing with respect to OPG's response to the KPMG review and to request the Ministry's permission to file the report titled Assessment of Organizational and Structural Opportunities at OPG as part of OPG's evidence in our OEB application.

OPG welcomed the examination of our benchmarking and business transformation initiative that we started in 2010. KPMG has validated OPG's approach to Business Transformation, stating that "KPMG believes that OPG has employed a systematic and structured approach to developing a company-wide transformation plan".

In the six months since KPMG completed their review, OPG has continued to make excellent progress on the many initiatives that form part of OPG's Business Transformation. Headcount from ongoing operations has now decreased by over 1,200 employees since the beginning of 2011. We are on track to achieve headcount reductions of 2,000 over the 2011 to 2015 period, and expect to achieve further reductions thereafter. We have initiated a redeployment process, working jointly with the unions, that will allow us to implement our streamlined organization and place employees with the right skills as needed across the company.

In terms of KMPG's findings of additional savings, KPMG has identified five opportunities where there are potential incremental opportunities in the range of \$15 to \$35 million per year. The savings relate to Supply Chain, Outsourcing and Off-shoring.

OPG is focused on the following actions to address KPMG's findings:

 Supply Chain – KPMG identified incremental savings related to the strategic sourcing of products and services of \$14 million, which are in addition to those amounts already identified by OPG in its 2013-2015 Business Plan. KPMG recognized that OPG is already pursuing strategic sourcing opportunities. We have hired an experienced executive to lead our strategic sourcing efforts. OPG will commit to the additional savings of \$14 million and will incorporate this amount into the 2014-2016 Business Plan. KPMG also identified potential savings in the range of \$0 to \$10 million related to vendor discounts for early payment. OPG will investigate the potential for achieving these savings.

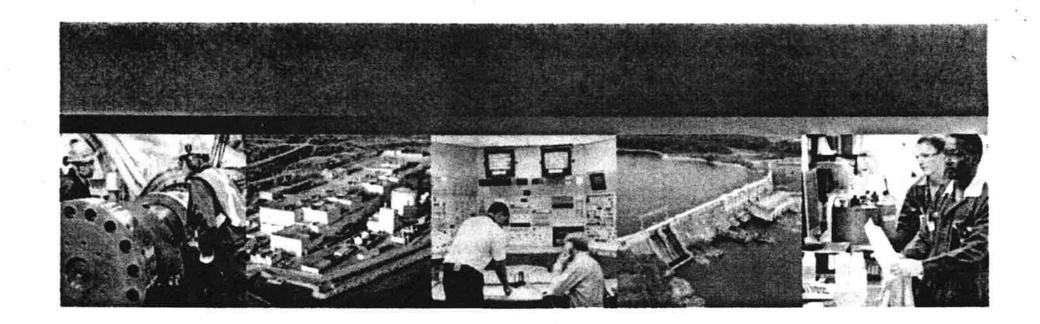
- Outsourcing KPMG identified savings in the range of \$0.8 to \$2.6 million related to outsourcing of certain facilities management activities and janitorial tasks within Nuclear. OPG will continue to explore and evaluate ways to achieve further savings, including outsourcing.
- Offshoring KPMG identified savings of \$0 to \$8 million with respect to
 off-shoring certain transaction processing and other activities. Unless
 otherwise directed, OPG is not planning to pursue offshoring.

I believe that the KPMG report titled Assessment of Organizational and Structural Opportunities at OPG provides relevant and timely information about OPG's efficiency and business transformation strategy, and therefore would provide important evidence in support of OPG's application for regulated rates before the OEB. We expect that OPG's Business Transformation strategy will be a key issue during the hearing process. As such, I am requesting the Ministry's permission to file this report as part of OPG's evidence to support the rate application.

I have attached a presentation that provides additional information and would be pleased to discuss with you further.

Yours truly,

Tom Mitchell President & CEO



OPG Response to KPMG Review

Minister of Energy Briefing

June 12, 2013



Executive Summary

- KPMG conducted a review of OPG's benchmarking studies to identify organizational and structural opportunities
- KPMG validated OPG's approach to Business Transformation
 - "KPMG believes that OPG has employed a systematic and structured approach to developing a company-wide transformation plan"
 - OPG has achieved headcount reductions of ~1,000 in 2011/2012
 - Headcount will be reduced by ~2,000 over the 2011-2015 period
- Opportunities identified by KPMG include:
 - Supply Chain Strategic sourcing and early payment discounts (\$14 M to \$24 M)
 - Outsourcing facilities management activities (\$0.8 M to \$2.6 M)
 - Off-shoring transactional and administrative activities (\$0 to \$8.0 M)
- OPG has a plan to address these and other opportunities
 - Executing Business Transformation initiatives over the 2013-2015 period, as planned
 - OPG will continue to pursue strategic sourcing. OPG will commit to additional savings as identified by KPMG and will incorporate these savings in its 2014-2016 Business Plan
 - OPG will investigate the potential for achieving savings through early payment discounts
 - OPG will continue to explore and evaluate ways to achieve further savings, including outsourcing
- OPG is not planning to pursue off-shoring unless directed otherwise



Incremental Efficiency Opportunities

KPMG identified five areas, with potential savings totaling \$15 to \$35 M/yr

(\$ millions)	Estimated Annual Savings	One-Time Costs
Outsourcing		
Facilities management activities (20 positions)	0.8 to 2.6	2.7 to 8.8
Janitorial tasks within the protected areas (45 positions)		
Off-shoring		
CAD drawing updates (18 positions)	0 to 1.1	3.1 to 3.4
Transactional processing activities within Finance (28 positions)	0 to 1.9	6.6 to 7.0
Administrative and routine HR activities (50 positions)	0 to 5.0	15.8 to 16.2
Total (96 positions)	0 to 8.0	25.5 to 26.6
Supply Chain		
Strategically source products and services (savings in addition to those already identified by OPG)	14.0	-
Early payment to vendors, with a discount of 1.5%	0 to 10.0	-



OPG's Plan

OPG is focused on the following actions to address KPMG's findings:

Supply Chain

- As noted by KPMG, OPG has already identified and is pursuing strategic sourcing opportunities. OPG has hired an experienced executive and is focused on achieving savings through contract negotiations. OPG will commit to additional savings as identified by KPMG, and will incorporate these savings into its 2014-2016 Business Plan.
- OPG is investigating the potential to achieve savings through early payment discounts
 Outsourcing
- OPG will continue to explore and evaluate further savings, including outsourcing
 Off-shoring
- OPG is not planning to pursue off-shoring, unless otherwise directed

Business Transformation

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- OPG continues to pursue it's Business Transformation initiative
 - KPMG has validated OPG's approach to Business Transformation
 - Business Transformation includes over 120 major change initiatives that will result in headcount reductions of ~2,000 over 2011-2015 period and savings of ~\$700 M (see Appendix)
 - Business Transformation will continue to exploit further efficiencies beyond 2015



APPENDIX



Business Transformation

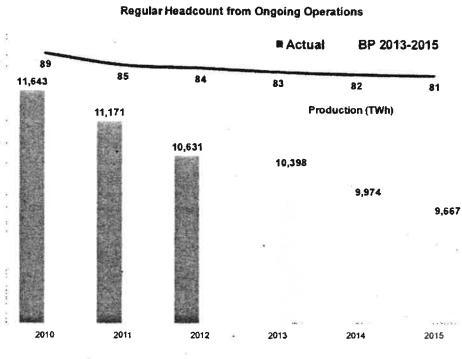
- OPG launched a Business Transformation initiative in 2011 to address financial sustainability, by transforming the Company into a competitive and scalable organization, able to adapt to market changes and capitalize on future business opportunities.
- Significant headcount reductions and efficiencies will be achieved through implementation of a centre-led organizational model, streamlining processes and procedures, and merging of business units and support organizations. Business Transformation is comprised of over 120 major Change Initiatives, including:
 - Merger of the Hydroelectric and Thermal business units
 - Regionalization of support services
 - Integration and consolidation of:
 - · 8 training organizations
 - 5 Supply Chain organizations
 - 2 facilities organizations
 - Creation of a shared services organization to combine transactional work & achieve economies of scale
- KPMG validated OPG's cost reduction and efficiency improvement efforts



Headcount Reductions and Efficiencies

OPG has achieved headcount reductions from ongoing operations of 1,000 in 2011/2012. Through Business Transformation, headcount will be further reduced by 1,000 over the 2013-2015 period.

- Through implementation of Business Transformation initiatives, total headcount from ongoing operations will be reduced by ~2,000 over the 2011-2015 period, of which 280 are due to coal closures
- Headcount reductions of ~1,000 has been achieved over the 2011-2012 period
- OPG's productivity, as measured by GWh/headcount, improves by 14% (normalizing for the Darlington VBO) over the 2012-2015 period, as Business Transformation impacts more than offset the impact of lower generation



 OM&A savings from headcount reductions accumulate to \$700 M over the 2011-2015 period

